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SIDLEY AUSTIN LLP
SIDLEY

SIDLEY AUSTIN LLP
1501 K STREET, N W
WASHINGTON, D C 20005
(202) 736 8000
(202) 736 8711 FAX

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September 12, 2008

The Honorable Anne K. Quinlan, Acting Secretary
Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423

Re: Finance Docket No. AB-515 (Sub-No. 2), *Central Oregon & Pacific Railroad, Inc. – Abandonment and Discontinuation of Service – in Coos, Douglas, and Lane Counties, Oregon (Coos Bay Rail Line)*

Dear Secretary Quinlan:

Enclosed for filing in the above-captioned proceeding are the following:

1 An original and fifteen (15) copies of Highly Confidential Version of the Rebuttal to Protests of Central Oregon & Pacific Railroad, Inc. ("CORP"), a CD containing the Highly Confidential Version of the Rebuttal to Protests in pdf format, and a disk containing the Highly Confidential Version of the Rebuttal to Protests in Word format. The portions of the Highly Confidential Version redacted in the Confidential Version and the Public Version are set off by brackets ([[ ]]); and

2. An original and fifteen (15) copies of Conderntial Version of the Rebuttal to Protests of Central Oregon & Pacific Railroad, Inc. ("CORP"), a CD containing the Confidential Version of the Rebuttal to Protests in pdf format, and a disk containing the Confidential Version of the Rebuttal to Protests in Word format. The portions of the Confidential Version redacted in the Public Version are set off by brackets ([ ]), and

3. An original and fifteen (15) copies of the Public Version of the Rebuttal to Protests of Central Oregon & Pacific Railroad, Inc. ("CORP"), a CD containing the Public Version of the Rebuttal to Protests in pdf format, and a disk containing the Public Version of the Rebuttal to Protests in Word format.

Please acknowledge receipt of the enclosed documents for filing by date-stamping the extra copies and returning them to our messenger. If you have any questions, please contact the undersigned counsel.

Sincerely,

Terence M. Hynes

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Enclosures

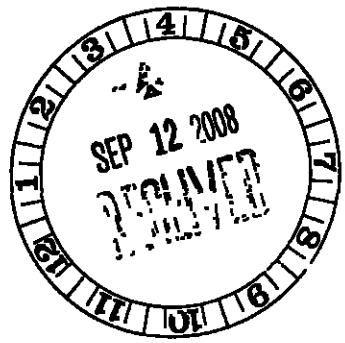
PUBLIC VERSION

BEFORE THE
SURFACE TRANSPORTATION BOARD

223583

Central Oregon & Pacific Railroad, Inc. – Abandonment and Discontinuance of Service – in Coos, Douglas, and Lane Counties, Oregon (Coos Bay Rail Line)	)	Docket No. AB-515 (Sub-No. 2)

REBUTTAL TO PROTESTS



VOLUME 1 OF 2

Scott G. Williams
Senior Vice President and
General Counsel
RailAmerica, Inc.
5300 Broken Sound Boulevard N.W.
Boca Raton, Florida 33487
(561) 994-6015

Terence M. Hynes
Paul A. Hemmersbaugh
Matthew J. Warren
Noah Clements
Sidley Austin LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

Counsel for Central Oregon & Pacific Railroad, Inc.

Dated: September 12, 2008

TABLE OF CONTENTS

INTRODUCTION

Central Oregon & Pacific Railroad, Inc. ("CORP") files this Rebuttal to the protests filed by the Oregon International Port of Coos Bay (the "Port"), the State of Oregon (the "State") and the Coos-Siskiyou Shippers' Coalition (the "Shippers") regarding CORP's proposed abandonment of that portion of its Coos Bay Subdivision between Milepost 669.0 and Milepost 763.13 (the "Abandonment Segment"). As CORP has shown, continued operation of the Abandonment Segment will cause CORP to incur losses in excess of $1 million per year. Certain tunnels on the Abandonment Segment require substantial rehabilitation, the cost of which cannot be justified by the traffic and revenues generated by the line. There is no reasonable prospect that CORP can attract sufficient new business to the line to offset its current operating losses or to support the cost of rehabilitating tunnels on the line. At the same time, shippers that were formerly served by the Abandonment Segment have alternative transportation options; indeed, shippers are actually exercising those transportation options today In light of these facts, CORP respectfully requests that the Board find that public convenience and necessity permit CORP to abandon that portion of the Abandonment Segment that is owned by CORP and to discontinue service over that portion of the Abandonment Segment that CORP leases from Union Pacific Railroad Company ("UP").

The evidence set forth in the Abandonment Application (the "Application") has not been seriously contested No party presented evidence refuting CORP's calculation of avoidable losses from operations, opportunity costs or required subsidy in Exhibit 1 to the Application. Nor has any party submitted evidence in this proceeding contesting CORP's estimate of the constitutional minimum Net Liquidation Value ("NLV") of the Abandonment Segment. Indeed, the Port submitted no opposition evidence whatsoever in this case, choosing instead to submit that evidence as "rebuttal" in the separate proceeding on the Port's Feeder Line Application

(thereby foreclosing CORP's ability to test the Port's evidence on rebuttal). Whatever the Port's reasons for doing so, its tactical decision leaves CORP's evidence on avoidable loss, opportunity cost and NLV uncontested in this proceeding.

Because CORP's avoidable loss, opportunity cost and NLV evidence is uncontested, the Board should accept it as the "only evidence of record." *Union Pac. R.R. Co —Abandonment— in Carver & Scott Counties, MN*, STB Docket No. AB-33 (Sub-No. 255) (April 1, 2008). *See also McCloud Ry Co —Abandonment & Discontinuance Of Serv. Exemption—In Siskiyou, Shasta, & Modoc Counties, CA*, STB Docket No. AB-914X, 2006 WL 2459083, at *3 (Aug. 25, 2006) ("absent probative evidence supporting the offeror's estimates, the rail carrier's evidence is accepted.").

ARGUMENT

I. THE BURDEN TO CORP AND TO INTERSTATE COMMERCE OF CONTINUED OPERATION OF THE ABANDONMENT SEGMENT OUTWEIGHS THE BURDEN TO SHIPPERS AND COMMUNITIES.

A. Continued Operation Of The Abandonment Segment Would Impose A Substantial Burden On CORP.

It is well settled that "[a] carrier cannot be compelled to carry on even a branch of business at a loss." *Brooks-Scanlon Co v. R.R. Comm'n of La*, 251 U.S. 396, 399 (1920) (Holmes, J.). Indeed, the Supreme Court has held that "to compel [a railroad] to go on at a loss" would effect an unconstitutional taking of property. *R R Comm'n of Tex v. E. Tex R. Co*, 264 U.S. 79, 85 (1924), *Bullock v R R Comm'n of Fla*, 254 U.S. 513, 521 (1921) (Holmes, J.). If operating and rehabilitation costs "cannot be justified in terms of the reasonably predictable revenues, . . . the expenditures are wasteful" and contrary to "a stated purpose of the Transportation Act." *Purcell v United States*, 315 U S 381, 385 (1942). *See also Gibbons v. United States*, 660 F.2d 1227, 1233 (7th Cir. 1981) ("The constitutional principle embodied in

these decisions retains its vitality; a railroad cannot be compelled to continue unprofitable operations indefinitely."). Consistent with these bedrock principles, the Board has held that a railroad "cannot legitimately be required to expend money to rehabilitate a line where it will lose money on the operation." *Michael H Meyer, Trustee v. N Coast R.R. Auth. d/b/a Nw. Pac. R.R.*, STB Fin. Docket No. 34337 (served July 27, 2005) (citing *Chi & Nw. Transp. Co. v. Kalo Brick & Tile Co*, 450 U.S. 311, 325 (1981)).

As demonstrated in the Application, CORP has been incurring substantial (and growing) annual operating losses in operating the Abandonment Segment. CORP's avoidable loss was approximately $1.3 million in the Base Year, and the projected Forecast Year avoidable loss is more than $2.1 million. Application, Exh. 1; V.S. Baranowski. No party seriously contests this fact.[1] It is likewise uncontested that a resumption of service on the Abandonment Segment would require CORP to make a capital investment of at least $2.9 million to rehabilitate certain tunnels on the line. Application, V.S. Lundberg at 5.

As the testimony of witness Williams shows, traffic volumes on the Abandonment Segment have dropped precipitously in recent years. The decision by Weyerhaeuser Corporation to close its paper manufacturing facility at Cordes, OR in 2004 resulted in a 29 percent decline in rail traffic on the Coos Bay Subdivision in that year alone. Application, V.S. Williams at 3. Nor have other shippers or traffic materialized to fill the void left by Weyerhaeuser. To the contrary,

[1] The Shippers take issue with CORP's avoidable loss calculations based on witness Baranowski's allocation of certain CORP systemwide expenses to the Abandonment Segment. Shipper Comments at 17. This criticism has no merit. As the Board knows, most short line railroads do not, in the normal course of business, maintain cost data at the same location-specific level of detail as Class I carriers. In the absence of line-specific data, the Board has accepted such cost allocations in prior proceedings. Indeed, the Board's abandonment regulations expressly contemplate the use of cost allocations in such circumstances. The Shippers have not demonstrated that any of the allocation methodologies employed by witness Baranowski were inappropriate.

the volume of traffic tendered to CORP by virtually every shipper on the line declined between 2005 and 2007. Reb. V.S. Williams at 5, Table 2. Overall, the number of customers that shipped any traffic over the Abandonment Segment declined from 19 in 2005 to only 11 in the Base Year. In other words, the number of active shippers on the Abandonment Segment declined by 42% over that period. *See id.* at 6.

Based upon currently foreseeable circumstances, it is highly unlikely that the Abandonment Segment can attract sufficient new business from other sources to offset these traffic losses. *Id.* The two largest rail shippers on the Coos Bay Subdivision, Georgia-Pacific West ("GPW") and Roseburg Forest Products ("Roseburg"), collectively account for approximately 83 percent of all rail shipments moving over the line. Only one other customer (Southport Forest Products) shipped more than [[ ]] carloads during the Base Year. Nor does the Coos Bay Subdivision enjoy significant traffic diversification from a commodity standpoint. To the contrary, lumber and forest products account for 97 percent of all traffic that moved over the Abandonment Segment during the Base Year. *Id*

Ignoring this reality, the Port asserts that "[i]n actuality, though, traffic has been increasing on the Line." Port Comments at 6. The Port bases this statement on its supposition that, if the Abandonment Segment had remained open through the end of 2007, "traffic on the Line would have been 5,555 cars for the year." *Id.* at 6-7. As an initial matter, the Port's speculation that rail traffic might have amounted to 5,555 cars in 2007 does not demonstrate that "in actuality" traffic has been increasing on the line. Moreover, the inherent unreliability of the Port's projections is demonstrated by the fact that, utilizing a similar methodology based on an estimated average of 446 cars per month, the Shippers argue that, but for the embargo, traffic on the Abandonment Segment in 2007 would have totaled 5,357 cars. Shipper Comments at 17,

n.33. The Shippers' projected total is 198 carloads (or 4%) less than the Port's projection – and it is lower than the number of cars that actually moved over the line in 2006.

More importantly, even if the incremental traffic increase hypothesized by the Port had come to pass, the Abandonment Segment still would have experienced an enormous avoidable loss. Indeed, as witness Baranowski shows, adopting the Port's assumed 2007 traffic volume of 5,555 cars would actually increase the Forecast Year avoidable loss by approximately $76,000, from $2,120,261 to $2,196,168. This, in turn, would produce a corresponding increase to the estimated subsidy payment for the Forecast Year, from $7,860,995 to $7,939,625. *See* Reb. V.S. Baranowski, Attachment 1. This would happen because the combined on-branch and off-branch avoidable costs for cars moving over the Abandonment Segment exceed the average revenue per car that CORP earns under its Cooperative Marketing Agreement ("CMA") with UP. Reb. V.S. Baranowski at 3. As witness Baranowski explains, this revenue-cost relationship is likely to continue into the future due to the annual cap of [[ ]] percent on annual increases in the Handling Carrier Charge received by CORP for traffic handled in conjunction with UP. As the Board knows, there is no corresponding "cap" on annual increases in railroad operating costs. *Id.* at 3.

The Port also questions the justification for abandonment on the grounds that "[c]ompared to virtually all other rail lines that face abandonment proceedings at the Board, the abandonment segment of the Coos Bay Line is heavily used by shippers, with over 5,000 cars per year being transported." Port Comments at 7-8. Contrary to the Port's assertion, this level of traffic is not sufficient to sustain the operation of a 100+ mile line with high maintenance requirements (due to the challenging terrain in which it is located). Indeed, a recent report by

Oregon DOT ("ODOT"), citing a 1993 ICC publication, offered the following predictors of line viability based on "annual carloads per mile":

> - Below 25, viability of a line is unlikely except under special circumstances such as shipper ownership, willingness of local government to subsidize the line, or a very short distance with optimal operating conditions.
> - 25 to 50, the line may be successful if the railroad is not responsible for track maintenance and taxes, as for example if the track is owned by a government which assumes these responsibilities.
> - 50 to 100, chance for success is good if other conditions for success are favorable.
> - Over 100, success is almost assured assuming other conditions are normal.

See Reb. V.S. Lundberg, Attachment 1 at 2 (emphasis in original). Since Weyerhaeuser closed its facility, traffic on the Abandonment Segment has averaged less than 50 carloads per mile, a level at which the Board's predecessor predicted a carrier "may be successful if the railroad is not responsible for track maintenance and taxes, as for example if the track is owned by a government," such as the Port. *Id.* (emphasis added). CORP, on the other hand, has been responsible for both ordinary track maintenance and taxes, and has had to face the additional challenges presented by deteriorating 100-year-old tunnels, a circumstance not envisioned in the ICC guidance. Even the Port's Executive Director, Mr. Jeffrey Bishop, testified that "from a business standpoint, very few people would invest in this line." August 21 Hearing Tr. at 176 (Bishop) (emphasis added).

Under these circumstances, to deny CORP's Application and require CORP to resume unprofitable operations on the Abandonment Segment would effect an unconstitutional taking.

B. Shippers Have Alternative Transportation Options Available.

In considering a proposed abandonment, the Board balances the loss the railroad seeks to avoid against possible harm to the shippers or the community. *Colorado v. United States*, 271 U.S. 153, 168-69 (1926) "In many cases, it is clear that the extent of the whole traffic, the degree of dependence of the communities directly affected upon the particular means of transportation, and other attendant conditions, are such that the carrier may not justly be required to continue to bear the financial loss necessarily entailed by operation." *Id* at 168. This balance generally requires the Board to consider whether alternative transportation is available. *Ga. Pub Serv. Comm'n v. United States*, 704 F.2d 538, 545 (11th Cir. 1983); *Ill. v United States*, 666 F.2d 1066, 1080 (7th Cir. 1981).

1. All Shippers Are Currently Exercising Transportation Alternatives.

While generalized, unsupported statements that alternative transportation is available will not suffice, *see Ga. Pub. Serv. Comm'n*, 704 F.2d at 545, where "the record shows the existence of motor transportation which is actually being used by the shippers, rather than the merely theoretical availability of motor carriers," public convenience and necessity will support abandonment. *Ill. v I.C.C.*, 751 F.2d 903, 905 (7th Cir. 1985); *State Corp. Comm'n v. United States*, 894 F 2d 1141, 1143 (10th Cir. 1990). In this case, the Board need not guess about whether shippers have adequate alternatives to CORP's rail service – every single commenting shipper has been using truck (or truck-rail transload) service to ship its products since CORP embargoed a portion of the line in September 2007.

GPW witness Bill Goodman candidly acknowledged that "the GP logistics team was able to quickly develop transportation alternatives—predominantly rail service via a Eugene, OR area reload and additional motor carrier capacity." Shipper Comments at 42 (Oral Testimony of Goodman at 2) (emphasis added). Mr. Fred Jacquot, Plant Manager of American Bridge

Manufacturing, indicated that his company is "rail[ing] our incoming material to Portland, transload, and truck to Reedsport . . . ." Shipper Comments at 51-52 (Oral Testimony of Jacquot). Mr. Jason Smith, Operations Manager of Southport, testified that Southport is currently "transload[ing] our lumber to reloads in the Willamette Valley." Shipper Comments at 47-48 (V.S. Smith at 3). Mr. Ray Barbee, Vice President for Sales & Marketing of Roseburg, also testified that his company is utilizing trucking instead of rail. Shipper Comments at 56-57 (V.S. Barbee at 3). Thus, the testimony of shippers confirms CORP's showing that reasonable transportation alternatives are available to former CORP shippers.

The primary reload facility currently being utilized by former CORP shippers is A&M Reload at Eugene, OR. Reb. V S. Williams at 8. A&M Reload is served by both UP direct and the Portland & Western and handles both forest products and aluminum. GPW, Roseburg and Durawood Treating Company (also known as Coos Head Lumber Company or Coos Bay Lumber Company) are all currently shipping traffic via the A&M Reload facility, and A&M Reload has substantial excess capacity available to handle additional truck-rail transload business. *Id.*

Notwithstanding the demonstrated substitutability of direct truck and truck-rail transload service for CORP rail service, the Port asserts that "the very existence of the Port may depend on the continued provision of rail service." Port Comments at 14 (emphasis added). At the August 21, 2008 Hearing, Port Executive Director Bishop suggested that "this, to us, is really a matter of survival." August 21, 2008 Hearing Tr. at 173 (Bishop) (emphasis added). These assertions are, at best, highly dubious. The Port is not a shipper—its only direct use of CORP rail service occurred in 2005, when it received [[ ]] cars of track materials in connection with the construction of the North Spit spur line. *See* Reb. V.S. Williams at 5, Table 2. Nor has there

been any waterborne traffic moving through the Port between water carriers and the rail line.[2] Indeed, the tunnels on the Coos Bay Subdivision cannot accommodate double-stack container shipments; a massive rebuilding of the tunnels would be required to permit such traffic. Consequently, the Port's "very existence" clearly does not depend on the rail line today. While access to rail service might be helpful to the Port's ambitious longer-term plans, CORP should not be required to absorb ongoing operating losses to promote the Port's parochial long-term business goals.

2. The Alternative Transportation Options Are Economically Feasible.

As in other cases where abandonment was allowed, in this case, "there is no question but that alternative transportation service is available—the question is solely as to the cost of that service." *See Union Pac R.R Co —Abandonment—Between Tekoa Fairfield in Whitman & Spokane Counties, WA*, I.C.C. Docket No. AB-33 (Sub-No. 62), 1990 WL 288309, at *44 (July 3, 1990). "If the phrase 'alternative' is to have any meaning," however, "it must be interpreted to include transportation both logistically and economically feasible." *S. Pac Transp Co v. I C C.*, 871 F.2d 838, 843 (9th Cir. 1989) (quoting *Ga Pub Serv Comm'n*, 704 F.2d at 545). The record in this case leaves no doubt that the use of direct truck and/or truck-rail transload service by former CORP shippers is both "logistically and economically feasible." Almost 97 percent of the traffic on the Abandonment Segment consists of lumber, plywood and other forest products. The Board has long recognized that rail carriers face intense competition from motor carriers for forest products traffic. "Indeed, we have generally exempted the rail carriage of lumber from our regulation for that reason." *Union Pac R R. Co.—Abandonment—Wallace*

[2] When Commissioner Buttrey asked Oregon State officials whether "there [are] container operations now or is that something that you foresee in the near future?," the answer was a convoluted "no." August 21, 2008 Hearing Tr. at 78-79.

Branch, ID, 9 I.C.C.2d 325, 355 (1992) (citing *Rail Exemption—Lumber Wood Prods.*, 7 I C C.2d 673 (1991)).

"[I]t is well settled that a railroad will not be required to operate a rail line simply to prevent shippers from incurring higher transportation costs by truck." *Cent. Mich Ry Co — Abandonment Exemption—in Saginaw County, MI*, STB Docket No. AB-308 (Sub-No. 3X), 2003 WL 22466004, at *4 (Oct. 31, 2003) (emphasis added). As the Board recently reiterated, the fact that a shipper's transportation costs might increase as a result of an abandonment is not sufficient reason to require a railroad to continue "rail service [that] cannot be provided except at a substantial loss " *Union Pac R.R Co.—Abandonment—in Carver & Scott Counties, MN*, STB Docket No. AB-33 (Sub-No. 255) (April 1, 2008) (approving abandonment in spite of shipper's claim of $1.6 million in increased shipping costs, reasoning that "[t]here is no reason that this cost should be borne by [the railroad] rather than [the shipper], which is the user of this transportation service"); *Boston & Me Corp.—Abandonment—in Hartford & New Haven Counties, CT*, STB Docket No. AB-32 (Sub-No 23) (April 22, 1998) (approving abandonment when a protesting shipper estimated 25% increased costs from trucking).

In his Opening Verified Statement, witness Williams estimated that the average increase in transportation costs to shippers resulting from the proposed abandonment is likely to be approximately 11 percent. *See* Application, V.S. Williams at 7-8, Attachment F. Without proffering any analysis of the relative cost of rail and truck (or truck-rail) transportation options, the Port asserts that witness Williams' calculations are "highly suspect " Port Comments at 11. This assertion is puzzling, considering the testimony of the President of the Port's Board of Commissioners, David Kronsteiner, that "[t]ransportation costs for wood products moving to market [increased] in between 10 percent and 15." August 21 Hearing Tr. at 160 (Kronsteiner).

Members of Oregon's Congressional delegation have likewise stated that "[s]hippers on the line are now paying 10-15 percent more in shipping costs because they have to use trucks." *See* Finance Docket No 35160, *Oregon International Port of Coos Bay – Feeder Line Application*, Letter dated August 18, 2008 from Sen. Wyden, Sen. Smith and Rep. DeFazio to Hon. Anne Quinlan at 1. These statements confirm the reasonableness of witness Williams' estimate of an 11 percent average increase.

The testimony of GPW, by far the largest shipper on the Abandonment Segment, provides further strong support for witness Williams' analysis. Mr. Bill Goodman, GPW's Group Manager – Western Lumber, testified that the embargo of the Coos Bay Subdivision has increased the transportation costs for GPW's traffic (including both inbound shipments of logs and outbound shipments of wood chips and lumber) by approximately $2.05 million per year at current production levels. Shipper Comments, Oral Testimony of Goodman at 2. This increase in GPW's total transportation costs equates to an increase of approximately [[ ]] per carload, or approximately 17-21 percent. *Id.* Mr. Williams' analysis estimated that GPW's annual transportation costs were likely to increase by approximately 24 percent. *See* V.S. Williams, Attachment F. GPW's estimate confirms the reasonableness of the results produced by witness Williams' methodology—indeed, Mr Goodman's testimony suggests that witness Williams' estimates may be somewhat conservative.

In contrast to GPW's candid estimate of the increase in transportation costs occasioned by the proposed abandonment, the estimates posited by other shippers are simply not credible. For example, Southport witness Smith asserted that, as a result of the embargo of the Abandonment Segment, Southport is currently paying an additional $70,000 per month in transportation expenses to transload lumber to reloads in the Willamette Valley. Shipper

Comments, V S. Smith at 3 Mr Smith's estimate of $70,000 per month represents an annual increase of $840,000 per year. Applied to the [[ ]] carloads that Southport shipped via CORP during the Base Year (see Table 2 above), this would indicate an increased cost of approximately [[ ]] per rail carload. Reb. V S. Williams at 12. This estimate is clearly inflated, considering the fact that Southport is shipping the same commodity (forest products) from the same origin station (Coos Bay) to the same transload point (A&M Reload at Eugene) as GPW, whose increased cost is only [[ ]] per rail carload. Mr. Smith offers no explanation as to why Southport's cost for virtually the same alternate transportation would be more than 3 5 times as much as GPW Indeed, Mr. Smith did not proffer any indication of how he arrived at this estimate, nor did he state the number of rail carloads, transload location or methodology upon which this estimate was based. *Id.* Southport's obviously exaggerated estimate should be rejected.

Roseburg's estimate of the cost of alternate transportation is even more wildly inflated. According to Roseburg witness Barbee, "the annual financial impact of the closure of the Coos Bay Line has resulted in an additional $208,000 to $250,000 per month ($2.5 to $3.0 Million/year) in hard transportation costs due to trucking instead of rail." Shipper Comments, V.S. Barbee at 3. (Like Southport witness Smith, Mr. Barbee does not give any indication of how Roseburg arrived at this estimate, nor does he indicate the number of rail carloads, transload location or methodology upon which his estimate was based.) Based upon the [[ ]] carloads that Roseburg shipped via CORP during the Base Year (*see* Reb. V.S. Williams at 5, Table 2), Mr. Barbee's estimate translates into to an increased cost of [[ ]] per carload, or 3.5 to 4.0 times the estimate of [[ ]] per carload presented by GPW Reb V.S. Williams at 13. This disparity calls into question the accuracy of Roseburg's estimate, especially considering

the fact that truck-rail transload service from Roseburg's Coquille facility via Dillard involves a truck movement of only 61 miles, or slightly more than half of the truck distance involved in GPW's transload shipments from Coos Bay via Eugene.

More fundamentally, Roseburg's estimate is simply not credible when one considers the substantially lower rail rates available to Roseburg for shipments originating at its Dillard facility (as compared to the rates from Coquille) As witness Williams shows, UP's rail rates for service from Dillard are between $2,100 and $2,700 per carload lower than the corresponding rates for service from Coquille. *See* Reb. V.S. Williams, Attachment JHW Rebuttal-1. For example, the cost to Roseburg of rail service from Dillard to Chicago is $2,179 less than the cost of rail service from Coquille. Likewise, the cost to Roseburg of rail service from Dillard to Memphis is $2,725 less than the cost of rail service from Coquille. *Id.* In order for the total additional cost to Roseburg of truck-rail transload service via Dillard to be [[ ]] per carload, as Mr. Barbee claims, the cost of trucking shipments from Coquille to Dillard would have to be at least [[ ] per carload or [[_____]] to Chicago and at least [[ ]] per carload or [[_____]]. Trucking cost estimates of [[ ]] per loaded mile are simply not credible.

American Bridge's estimate of increased transportation costs is likewise unreasonable. Mr. Jacquot estimated that American Bridge's inbound raw material that was costing $0.058 per pound prior to closure of the Line is now costing $0.09 per pound. *See* Shipper Comments at 52. The application of Mr. Jacquot's cost differential of $0.032 per pound to the [[ ]] inbound carloads American Bridge received in the Base Year produces an estimate of $[[ ]] per carload. or $[[ ]] in total increased cost. Reb. V.S. Williams at 15. Considering that truck costs from Portland to Reedsport were only $[[ ]] per carload (as shown in Mr. Williams'

workpapers for his Opening Verified Statement, Attachment F), American Bridge's projected cost increase of $[[ ]] per carload is not credible.

The Port also questions witness Williams' analysis simply because he concluded that the cost of truck-rail service is likely less than the cost of CORP rail service for two shippers (Roseburg and Danish Dairy). Port Comments at 11. According to the Port, "on their face, these numbers appear incorrect because a shipper surely would have used the truck-rail combination (and avoided CORP altogether) prior to the embargo if it were so much less expensive." Port Comments at 11-12. The Port is wrong.

The vast majority of the cars for which witness Williams concluded that truck-rail transload service is likely to be cheaper are the Roseburg shipments discussed above. *See* V.S. Williams, Attachment F. The lower overall cost for Roseburg is attributable to (1) the very substantial difference in UP's rail rates for service from Dillard versus Coquille, and (2) the relatively short truck distance (61 miles) involved in transloading Coquille origin traffic via Dillard (compared to the trucking distance of 100+ miles for shipments transloaded at Eugene) The remaining [[ ]] cars for which witness Williams found that the truck-rail transload option would be cheaper are inbound shipments of grain to Danish Dairy at Coos Bay. *See* V.S. Williams, Attachment F, Line 91. The result for Danish Dairy is attributable to similar factors—a lower UP rail rate to Green, combined with a relatively short truck movement from Green, OR to Coos Bay. Reb. V.S. Williams at 16.

Moreover, the Port's presumption that a shipper will automatically discontinue its use of rail service whenever a lower cost alternative is available is not valid. For example, Roseburg is the only active shipper on CORP's rail line south of Coos Bay. If Roseburg had reduced (or discontinued) its use of direct CORP rail service to Coquille in favor of a transload movement

via Dillard, CORP would have (justifiably) sought to abandon the 16.9-mile segment between Coos Bay and Coquille. Thus, Roseburg would have had a strong incentive to utilize CORP's rail service even if it might have been able to save money by switching to a truck-rail transload operation via Dillard, in order to preserve rail service to the Coquille facility. Indeed, it is not at all unusual for a rail shipper to exercise a higher cost transportation alternative to preserve a competitive option.

Finally, the Port argues that witness Williams' analysis is "suspect" because the traffic volumes for specific shippers shown on his Attachment F do not match the CORP traffic data mentioned elsewhere in the Application. Port Comments at 12. The analysis set forth in witness Williams' Attachment F was based in part on data from the Board's 2006 *Carload Waybill Sample*. Specifically, because CORP does not, in the normal course of business, keep track of the ultimate origin or destination point beyond CORP's lines of traffic that it handles for UP's account, witness Williams was required to determine the ultimate origins (or destinations) of the traffic he studied by referring to the *Carload Waybill Sample*. The slight discrepancy between the carload totals in the *Carload Waybill Sample* and in CORP's internal traffic records had no effect whatsoever on witness Williams' analysis, which compared the cost of shipping a single carload of traffic via direct rail service versus shipping that same carload by truck to a rail reload center (in most cases, at Eugene or Dillard, OR) and transloading it into a rail car for movement beyond CORP's lines. Mr. Williams' analysis produced an estimate of the percent increase in transportation costs that shippers would experience as a result of the proposed abandonment. That percentage calculation is not dependent in any way upon the total number of carloads involved in a particular origin-destination movement—the percent increase (or decrease) in transportation costs per carload is the same for each car. Reb. V.S. Williams at 17-18.

II. CORP'S EVIDENCE ESTABLISHES THE NET LIQUIDATION VALUE OF THE LINE.

Beyond a few unsupported assertions, the Port and other commenters submitted no evidence in this proceeding to contest the NLV evidence presented by CORP. The near-absence of meaningful, quantifiable record evidence contesting or analyzing CORP's NLV estimate compels the conclusion that CORP has submitted the best, most reliable and verifiable, most specific, and most probative evidence of the NLV and fair market value of the Abandonment Segment. The state of the record, therefore, admits only one result – CORP's NLV evidence must be adopted as establishing the fair market value of the line. *See San Joaquin Valley R.R Co.—Abandonment Exemption—in Tulare Cty, CA*, AB-398 (Sub-No 7X), at 3-5 (Aug. 25, 2008) ("*SJVR*"). This Rebuttal submits evidence to address commenters' limited assertions regarding the NLV of the line, and to correct two inadvertent errors in its land valuation. *See* Reb. V.S. Pettigrew; Reb. V.S. Rex, *infra*.

In support of its track asset NLV, CORP originally submitted an estimate developed by experienced rail salvage contractor L.B. Foster Company, and an offer to purchase the assets of the line from experienced salvage contractor Unitrac Railroad Materials. *See* Application, V.S. Bader at 2-4, Attachments 2-3. That evidence established the NLV of the track assets of the Abandonment Segment, based in part on prevailing scrap metals prices in late May and early June 2008. Since late May, scrap metals prices increased substantially through June and July, and then receded in August and September. *See* V.S Pettigrew at 9. Several commenting parties have alleged that CORP has overstated the NLV of the line, seeking to inflate its value and "overprice" the line in order to generate a "windfall," and have questioned whether it is appropriate for the NLV to use "all-time high" scrap metals prices.[3]

[3] *See, e.g*, Port Comments at 14-17 (claiming CORP overstated the NLV by, *inter alia*, failing to

Because of the volatility in scrap metals prices (including steady and substantial increases during most of this proceeding) in recent months, and to respond to claims that CORP had overvalued the assets of the Line, CORP went into the marketplace and obtained actual purchase offers from experienced reputable salvage contractors Unitrac Rail Materials and L.B. Foster. *See* V.S. Alan Pettigrew at 1-9, Attachments 1-2 (purchase offers from Unitrac and Foster dated August 19 and 22, 2008). These two purchase offers, presented by ready, willing, and able competing bidders in the marketplace, establish that the fair market value (and the NLV) of the track assets of the Abandonment Segment is $ 17,120,000.[4] *See* V.S. Pettigrew at 16-17; Attachments 1-2.[5]

In order to test the potential effect of metals index price changes on the NLV of the track assets of the Abandonment Segment, CORP also developed separate, alternative NLV estimates using American Metals Market ("AMM") index prices during the course of this proceeding. *See*

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include liquidation value of removal of bridges and environmental mitigation costs); Oregon Comments at 5; August 21 Hearing Tr. at 66-67 (Rep. Roblan) (claiming that scrap prices used to value the line are too high, and urging Board to use scrap value at the time CORP acquired the line; *id* at 162 (Port testimony that CORP seeks inappropriate "windfall"); *id* at 250-91 (Umpqua port manager allegation that CORP is using an "inflated valuation" of the rail "infrastructure").

[4] LB Foster's purchase offer for the track assets, without cost for removing bridges, is $17,120,000. Unitrac's purchase offer for the same task is $16,367,124. *See* V.S. Pettigrew at 16 & Attachments 1-2. Because CORP would likely accept the higher bid, the NLV assuming bridges are not removed is $17,120,000. Foster also submitted the higher overall bid for the track assets assuming the two bridges would have to be removed. *See id* Thus, if the Board assumes CORP would be required to remove those two bridges, the NLV would be the amount of the Foster bid including bridge removal. $15.120,000.

[5] *See SJVR Abandonment*, Decision at 3-5; *Mississippi Tennessee Holdings LLC – Abandonment Exemption – In Union, Pontotoc, and Chickasaw Counties, MS*, STB Dkt. No. AB-868X, slip op at 6 (served Nov. 2, 2004) (finding firm offer to be best evidence of record of rail line's fair market value) *see also, Pyco Industries, Inc —Feeder Line Application—Lines of South Plains Switching, Ltd* , STB Fin. Docket No. 34890 (Aug 31, 2007) ("A signed sales contract or firm bid that would be binding upon its acceptance can be convincing evidence of the fair market value of a rail line or segment.").

Reb. V.S. Pettigrew at 9-17. Although CORP uses the AMM index in this Rebuttal as a check on its NLV evidence in a time of volatile scrap metals prices, it emphasizes that such indices are simply estimates of actual market prices and are not nearly as accurate or reliable a measure of fair market value as the actual firm purchase offers extended less than a month ago by Unitrac and L.B. Foster.

Nevertheless, on a few occasions when the Board has been faced with volatile scrap metals prices in an abandonment proceeding, it has relied upon average index prices over the course of the proceeding to establish the scrap metal value for NLV purposes. *See Keokuk Jct Ry. Co.—Feeder Line Application—Line of Toledo, Peoria, & W Ry Corp Between La Harpe & Hollis, IL* ("*TP&W*"), STB Dkt. No. 34335, Decision at 13-15 (served Oct 28, 2004) (using average scrap metals index prices from the date of filing of the case through the close of the evidentiary record), *aff'd sub nom. Toledo, Peoria & W. Ry. v. Surface Transp. Bd.*, 462 F.3d 734, 744-46 (7th Cir. 2006). In *TP&W*, the Board emphasized that, particularly in periods of price volatility, it would be inappropriate to rely upon index prices from any single day to serve as the value of rail scrap metals over the course of a feeder line or abandonment proceeding. *See id.* at 14 (using the "average price of scrap over the time period involved").

Consistent with the Board's approach in *TP&W*, CORP determined the average of the relevant scrap index values (the daily average of the AMM-Chicago index price that most closely approximates actual market prices for scrap rail and OTM, beginning with the date of filing of the Application and ending with September 10, the most recent date for which index values were available prior to the filing of this Rebuttal) CORP used that average price to develop the scrap metal components of its alternative NLVs. *See* Reb. V.S. Pettigrew at 11-14.[6] The alternative

[6] Putting aside the separate question of bridge removal, no commenter raised any concern or

NLV estimates generated through this process affirm the accuracy and reliability of the Unitrac and Foster purchase offers, and demonstrate that scrap price changes have relatively little effect on the overall NLV of the track assets. *See id* at 14-17, Attachments 6-9. Indeed, the average of four NLV estimates CORP developed using AMM Chicago index prices differs from the average of the Foster and Unitrac purchase offers by only 3.5 percent. *Id* at 15-17. Thus, far from undermining CORP's NLV evidence, the average of appropriate index prices during the pendency of this proceeding provides strong additional support for that evidence.

The Port claims that if the line were abandoned, CORP would be required to remove the swing spans of bridges over the Umpqua and Siuslaw rivers But, the Port submits no evidence whatsoever in this proceeding concerning the cost of such removal or its effect on the NLV of the track assets. *See* Port Comments at 14-16. In fact, it is not at all clear that removal of these two bridges would be required. *See* Reb. V.S. Pettigrew at 17-20. As SEA explained in this proceeding, the Board "does not typically require the removal of railroad bridges and other structures when a line is approved for abandonment." STB Environmental Assessment at 10. Moreover, the Coast Guard has discretionary authority to require that bridges or causeways be removed when the owners discontinue the use of these structures for transportation purposes. *See* Reb. V.S. Pettigrew Attachment 4. The Umpqua and Siuslaw bridges would qualify for removal only if they are "no longer used for land transportation." *Id.*, Attachment 4 at 3-4; *see* 33 C.F R. § 116 01(a); Coast Guard Bridge Administration Manual (found at

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allegation – and certainly no other party submitted any evidence in this proceeding – regarding CORP's evidence concerning quantities or classifications of rail, OTM, ties, or assets on the Line, or prices of relay rail and OTM, or costs of removal, transportation, or disposal of those assets. The only specific allegations concerning track asset valuation were that CORP used inflated scrap metal prices and took unfair advantage of volatility in scrap metals prices. The Port's separate claim, that the NLV should take account of the cost of removing swing spans of two bridges, is discussed in the following section.

http://www.uscg.mil/directives/cim/16000-16999/CIM_16590_5C.pdf) (hereinafter "Bridge Administration Manual") at page 1-1.

Abandonment of the Coos Bay Subdivision does not automatically mean the end of "land traffic use" or "land transportation" over these bridges. As the Board explained in its recent Environmental Assessment, "[t]he National Trails System Act (Trails Act), 16 U.S.C. § 1247(d), gives interested parties the opportunity to negotiate voluntary agreements to use, for recreational trails, railroad right-of-way that otherwise would be abandoned." Environmental Assessment at 8-9. The Board went on to recognize that "bridges can . . . be an important component of rail banking lines approved for abandonment under the Trails Act." *Id* at 10. If the Abandonment Segment were converted to trail use, the Siuslaw and Umpqua bridges would continue to "serve *the needs of land transportation" over that trail and would not be subject to removal.* 33 C.F.R. § 116.01(a). Indeed, preservation of the bridges is essential to any plan for a continuous trail use of the Coos Bay Subdivision's right-of-way. As Mr. Pettigrew explains, there is a significant possibility in this case that the bridges would continue to be used for land transportation after the discontinuance of rail service. *See* Reb. V.S. Pettigrew at 5, 17-20. In the event of such continued land transportation, the Coast Guard would not require the removal of the bridges. *See id*, Attachment 4.

Even if the right-of-way were not converted to trail use, it is by no means certain that the Coast Guard would require removal. While the Coast Guard has authority to remove abandoned bridges over navigable waters, it does not automatically require removal of all bridges no longer used for land transportation purposes. Instead, "[e]ach individual case must be treated according to the particular set of facts and circumstances surrounding it." Bridge Administration Manual at 1-7. Coast Guard policy is to require removal or alteration of bridges only where the benefits to

be obtained outweigh the costs. *See* Bridge Administration Manual at page 7-3 ("The Coast Guard may determine a bridge to be unreasonably obstructive to navigation if the navigational benefits that would accrue as a result of altering the bridge equal or exceed the cost of bridge alteration."). It is impossible to determine in advance how the Coast Guard might exercise its discretionary authority to require removal or alteration of bridges in any particular instance. For example, if parties raise concerns about the potential environmental effects of bridge removal, the Coast Guard might choose to leave the bridges in place.

Even if the Coast Guard were to decide that the bridges must be altered or removed to address navigational concerns, only those portions over navigable waters would be removed. The Coast Guard's jurisdiction over bridges (and bridge alteration and removal) is limited to *those portions of bridges which span "navigable waters"* *See* 33 C.F.R. § 2.36(a)(3) (defining "navigable waters"), Bridge Administration Manual at pages 1-2 (defining "navigable waters"), 1-4 (defining "bridge" as "a structure over, on, or in the navigable waters of the United States"). Accordingly, any Coast Guard order requiring removal of the bridges would extend, at most, to those portions of the bridges in, on, or over navigable waters, and it is only those portions that should be included in determining the NLV of removing a bridge. This is consistent with the position of the Coast Guard headquarters office responsible for bridge policy. *See* Reb. V.S. Pettigrew, Attachment 4. (Statement from U.S. Coast Guard Chief of Alterations & Drawbridge Operations, indicating that Coast Guard removal requirement would be limited to areas between the banks of the navigable river).

In response to the Port's contention that the Umpqua and Siuslaw bridges must be removed if the Line is abandoned, CORP obtained actual offers to perform that work from experienced contractors who stand ready to perform should CORP accept their offers. L.B.

Foster included removal of the two bridge spans, at a cost of $2 million, as part of its offer to purchase the track assets. *See id.* Attachment 2. CORP also obtained a separate and independent bid from RL Staton Companies ("Staton"), an experienced bridge demolition and removal company in Eugene Oregon. Based on its actual inspection of the bridge, Staton submitted a bid totaling $2,065,790 for removal and disposal of the spans over the navigable waterways of the Siuslaw and Umpqua Rivers *See id* at 17-20, Attachment 3. These two real world offers from experienced contractors, both based upon actual inspection of the bridges, provide a reliable measure of the cost of removing those bridges. If the Board were to conclude that removal of the Siuslaw and Umpqua River bridges would be required, it should adopt the lower of these two offers ($2,000,000) as the best evidence of the actual net cost of removing the bridge spans. Indeed, the record in this proceeding contains no other estimate of the cost of removing the Siuslaw and Umpqua River bridges.

Finally, in the interest of fairness and accuracy, CORP witness Rex has submitted a correction to his appraisal of the land constituting the right-of-way of the rail line that is the subject of this proceeding. Reb. V.S. Rex. In his verified statement, Mr. Rex has addressed two minor errors in his appraisal, which result in a corrected Gross Liquidation Value of $[ ], and a corrected NLV of $[ ] for the right-of-way land underlying the Abandonment Segment—both values are somewhat lower than the appraisal as first submitted *Id* at 1. The overall NLV of the Abandonment Segment, comprised of the NLV of the land ($5,309,000) and the NLV of the track assets ($17,120,000), is $22,429,000. *See generally* V.S. Pettigrew, Reb. V.S. Rex.

III. THE BOARD SHOULD REJECT THE PORT'S CLAIMS FOR DAMAGES

The Port and other commenters "implore" the Board to find some way to assess "damages" in this proceeding for CORP's supposed deficient maintenance of tunnels on the

Abandonment Segment. Such claims have no basis in either the factual record or the governing law and they should be rejected. The Port's stubborn insistence that CORP "milked" the line for profits and "neglected" to perform repairs and maintenance is utterly at odds with the facts. The Port is unable to dispute that CORP spent millions of dollars maintaining and repairing this marginal line; that CORP's spending on maintenance is far above the industry average; that CORP spent millions of dollars for tunnel repairs in the year before the embargo—even as CORP was experiencing an operating loss in excess of $1 million; and that CORP continued to invest significant sums in maintenance and repair after the line began losing money. Indeed, CORP spent tens of thousands of dollars to repair a bridge on the Abandonment Segment after the line was embargoed. There is absolutely no legal precedent for the Port's demand for "damages" or that CORP be required to contribute to an "escrow fund" for rehabilitation costs that otherwise would be the Port's responsibility (should its feeder line application be approved). The Port's baseless demands are a transparent attempt to reduce the amount the Port must pay to acquire the line below its constitutional minimum value, and they must be rejected.[7]

[7] The Board should reject the suggestion that it "should consider the financial resources" of RailAmerica and Fortress Investment Group LLC ("Fortress") because CORP is controlled by RailAmerica, and RailAmerica is now owned by certain investment funds managed by Fortress. Comments of Coos-Siskiyou Shippers Coalition at 23 n.41. It is well settled that "the financial position of a railroad's corporate parent or affiliates" is not relevant to whether or not a carrier is entitled to the full NLV of its real property. *Decatur County Comm'rs v The Central Railroad Co. of Indiana*, at 17 n.31 (served Sept. 29, 2000) ("*CIND*"), *aff'd sub nom Decatur County Comm'rs v STB*, 308 F.3d 710 (7th Cir. 2002). The fact that CORP is ultimately controlled by an entity with greater financial resources than CORP itself is beside the point. Under the Board's regulations CORP must maintain "financial and operational independence" from its corporate parents and affiliates, which are forbidden from subsidizing rehabilitation costs. *See, e g*, STB Finance Docket No. 34177, *Iowa, Chicago & Eastern R R Corp. – Acquisition and Operation Exemption – Lines of I&M Rail Link*, at 4 (served Jan. 21, 2003). The Board cannot treat CORP differently for being owned by a larger entity any more than it could treat publicly traded carriers like BNSF differently for being owned in part by wealthy shareholders such as Warren Buffett. Requiring CORP's corporate parents or affiliates to assume the cost of repairing CORP's rail facilities would subvert the basic rule that a short line carrier created pursuant to 49

A. The Port Is Not Entitled To "Damages" For Expenditures On The Coos Bay Bridge.

The Port first claims that CORP "owes damages" to the Port because the Port "made good faith investments in the Line based on CORP's assurances of future rail service." Port Comments at 17 In particular, the Port demands that CORP compensate the Port for its investments in the Coos Bay Bridge, which is owned by the Port. This demand is illogical, based on factual misrepresentations, and has no basis in the law.

In the first place, the Port's claim that it was "damaged" by investing in the Coos Bay Bridge is nonsensical. While the Port does not explain how it was damaged by making "good faith investments" on the bridge, its apparent theory is that the Port's past expenditures on the Coos Bay Bridge would be wasted (or reduced in value) if service on the line were discontinued. But the Port itself has filed a feeder line application in Docket No. 35160 that contemplates continued rail service on the line (including over the Coos Bay Bridge). The Port has not been "damaged" by making improvements to a bridge on a line it plans to operate.[8]

More importantly, the Port's claim that CORP "represented that rail service would be provided indefinitely" is ludicrous. *Id* The quotations the Port cites in support of this claim say no such thing. The Port's only cited "support" for this claim is three CORP requests to ODOT for money to fund track improvements on the Coos Bay Subdivision. *See* Port Reply to Show Cause Proceeding Ex 9 (Apr. 4, 2002 letter to ODOT); *id.* Ex. 10 (Feb. 7, 2003 letter to ODOT); *id* Ex. 39 (Sept. 16, 2004 email to ODOT). Not one of those documents suggested that CORP would "guarantee" indefinite service on the line or that the requested funds were the only

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U.S.C. § 10901 must stand on its own.

[8] It should not be overlooked that most of the Port's expenditures on the Coos Bay Bridge appear to have been funded by state and federal government grants, not from the Port's own resources. Far from requesting a refund of an "investment" by the Port, the Port is asking to be compensated for improvements that it did not pay for in the first place

expenditures necessary to ensure the future viability of the line. On the contrary, CORP made clear that the requested funding was only "the first of what we hope would be three phases of improvements on the Coos Bay Line, depending upon the amount of future funding sources." Port Reply to Show Cause Proceeding Ex. 9 at 1. CORP explicitly noted that the Line was "marginal" and that it needed ODOT funding because traffic levels did not support necessary capital work. *Id.* Moreover, both the 2002 and 2003 ODOT applications were made before Weyerhaeuser ceased operations at its Cordes, Oregon facility—a facility that accounted for approximately 3,000 annual carloads of traffic on the Coos Bay Line. As discussed in the Application, the loss of Weyerhaeuser's business resulted in a sharp decline in traffic on the line. *See* Application at 19. CORP did not anticipate the loss of that business when it applied for ODOT funds in 2002 and early 2003, and it could not possibly have foreseen the significant rise in fuel prices and other operating costs in recent years that have made CORP's operation over the line untenable. Even if CORP had "represented that rail service would be provided indefinitely" (and it did not), there has been a significant change in circumstances since 2004. It would be grossly inequitable to find that pre-2004 CORP statements somehow bind CORP to provide rail service at a loss indefinitely.

The Port is unable to cite any precedent that stands for the proposition that an abandoning railroad may be ordered to compensate third parties for any "good faith investment" in rail infrastructure. The Port relies exclusively on *Central Michigan Railway Co —Abandonment Exemption—in Saginaw County, MI*, Docket No. AB-308 (Sub-No 3X) (Oct. 31, 2003), an "unusual case" that has no application here. In that case the Board imposed a condition requiring the abandoning carrier to compensate a shipper for its recent investments in rail infrastructure where the railroad had offered to compensate the shipper for those investments and where the

railroad was receiving a payment of over three million dollars as a result of the abandonment. In *Central Michigan* a railroad sought an exemption for the abandonment of a line of railroad whose removal was necessary for a highway expansion project by the Michigan Department of Transportation, which offered the railroad a $3,046,500 payment for the bridge on the line. After abandonment was opposed by the single shipper on the line, the railroad offered to compensate the shipper, through both favorable terms for transload service and compensation for the shipper's recent investment in rail infrastructure. The shipper rejected that offer, and demanded compensation of more than one million dollars. The Board refused the shipper's demand, and instead imposed the terms of the railroad's offer as a condition to the abandonment. The Board noted that it imposed the unusual condition "due to the unique circumstances of this case"—in particular the facts that the railroad had not clearly shown that the line was unprofitable, that the State had made a substantial financial offer to the railroad, and that the shipper made its recent investment in rail facilities without knowing of the prospects for abandonment.

Central Michigan could not be more different than the situation here, where the unprofitability of the Coos Bay Subdivision is unquestioned, where CORP will not receive any windfall payment for abandonment, and where the Port's investment in the Coos Bay Bridge was made with full knowledge of the "marginal" nature of the line. *See* Port Reply to Show Cause Proceeding Ex. 9 at 1. And *Central Michigan*, which was predicated on the fact that the shippers' investment in rail facilities was worthless after abandonment, certainly is inapplicable in a situation like this one where the party demanding compensation for its investment is itself planning to purchase and operate the rail line and to continue the use of the bridge for which it is seeking compensation.

In sum, there is neither a legal nor a factual basis to force CORP to pay the Port windfall "damages" for its improvements to the Coos Bay Bridge.

B. The Port Is Not Entitled To Deduct The Cost Of Tunnel Repairs From The NLV Of The Line.

The Port also demands that, assuming its feeder line application is approved, a portion of the purchase price "be paid into escrow and used to repair the tunnels." Port Comments at 19. Put more simply, the Port is asking that the Board subtract the cost of repairing the tunnels from the NLV of the line. Such an action is legally unprecedented and flies in the face of Board precedent, the governing statute, and the U.S. Constitution. Moreover, it is based on factual premises that are simply wrong. CORP has not "neglected" to maintain the line. Port Comments at 20. To the contrary, CORP's maintenance expenditures on the line have far exceeded industry norms. Indeed, less than a year before it was forced to embargo the line because of tunnel conditions, CORP spent $1.7 million repairing one of the very tunnels that the Port claims CORP "neglected." The Port's assumption that the tunnels would not be in a deteriorated condition had it not been for supposed "deferred maintenance" – an assertion that it never supports with any evidence – is wrong. The current condition of tunnels on the Coos Bay Subdivision is attributable to the fact that they are more than a century old, not deficient maintenance during the time the line has been owned by CORP

1. There Is No Legal Basis For Reducing The Net Liquidation Value Of The Line.

There is simply no legal authority for the Port's demand that CORP pay for tunnel repairs before selling the line to the Port. As CORP explained in its response in the Feeder Line Proceeding, the feeder line statute requires that the applicant pay the carrier the constitutional minimum value of the property the applicant is taking—here, the NLV of the line. *See* 49 U.S.C. § 10907(b)(2) The statute—and the Constitution—prohibit the Board from ordering the sale of

the line for anything less than its NLV [9] The cost of any rehabilitation that may be required in the tunnels on the line is irrelevant to the Line's NLV, because the premise of net liquidation value is that the line will not be used to provide rail service. Whether the tunnels can accommodate rail traffic has nothing to do with the "highest and best nonrail use" of the rail properties. *SJVR* at 3; *see Kansas City So Ry Co —Abandonment Exemption—Line in Warren Cty , MS*, STB Docket No. AB-103 (Sub-No. 21X) (May 20, 2008), slip op. at 4 ("*Warren County*") (when calculating NLV the "Board value[s] the Line as if it were to be dismantled and taken out of service").

Moreover, there is nothing at all unusual about a feeder line applicant needing to rehabilitate a line after purchase. As the Board correctly observed this week, "if the feeder line sale is approved and consummated, the Port would be financially and operationally responsible for rehabilitating and maintaining the Line's tunnels and bridges." *Oregon Int'l Port of Coos Bay—Feeder Line Application—Coos Bay Line of the Central Oregon & Pac R R* , Fin. Docket No. 35160, slip op. at 3 (Sept. 10, 2008) (emphasis added). Indeed, most feeder line applications and OFAs involve lines that require at least some rehabilitation, and the Board has never suggested that the incumbent carrier can be required to perform rehabilitation work prior to a forced sale *See, e.g., Pyco Industries, Inc.—Feeder Line Acquisition—Lines of South Plains Switching, Ltd* , STB Fin. Docket No. 34890 (Aug. 31, 2007) ("*Pyco Industries*") (not deducting rehabilitation costs from net liquidation value and finding that feeder line applicant could pay for rehabilitation costs); *Glenwood & So R R Co —Feeder Line Acquisition—Arkansas & Midland*

[9] *See San Pedro R.R Operating Co —Abandonment Exemption—in Cochise Cty, AZ*, STB Docket No. AB-1081X (Apr. 13, 2006) ("the Board may not set a price that is below the fair market value of the line"); *see also Kansas City So Ry Co.—Abandonment Exemption—Line in Warren Cty., MS*, STB Docket No. AB-103 (Sub-No. 21X) (May 20, 2008), slip op. at 4 ("The Fifth Amendment to the Constitution provides that private property shall not be taken for public use without just compensation.").

R R Co Line Between Gurdon & Birds Mill. AR, I C.C. Fin. Docket No 32613 (Nov 23, 1994) ("*Glenwood*") (rejecting feeder application in part because applicant failed to indicate how it would finance rehabilitation); *cf* 49 C.F R. § 1152.22(b) (contemplating that there may be "deferred maintenance and rehabilitation costs" for lines proposed for abandonment). To the contrary, it is well settled that a feeder line applicant—not the incumbent carrier—assumes responsibility for any rehabilitation necessary to operate the line *See. e.g , Pyco Industries*; *Glenwood.* Indeed, the Board's regulations expressly require a party making an offer of financial assistance to account for the cost of "rehabilitating the line to Federal Railroad Administration Class 1 Safety Standards." 49 C.F.R. § 1152 27(a)(3). In short, the Board has always recognized that purchasers of rail lines under the OFA and feeder line provisions take those lines "as is" and must accept responsibility for any necessary rehabilitation costs.

The Port is unable to cite any applicable authority to support its extraordinary request that CORP be required to repair the tunnels without compensation before selling the line to the Port. *Railroad Ventures, Inc —Abandonment Exemption—Between Youngstown, OH and Darlington, PA*, AB-556 (Sub-2X) (Apr. 28, 2008) is utterly inapplicable The defendant in *Railroad Ventures* was not even a bona fide rail carrier. Railroad Ventures unlawfully acquired a line without the Board's permission, and later misrepresented to the Board that it intended to restore rail service when it actually had sold the salvage rights to the track materials. To make matters worse, Railroad Ventures disconnected grade crossing signals on the line, authorized state highway crews to pave over grade crossings on the line, and generally engaged in "blatant disregard of its common carrier obligation." In those extraordinary circumstances, the Board ordered Railroad Ventures to pay "for the repair of the damage it caused by its 'egregious

conduct' in failing to maintain the line during the course of its ownership and taking actions to accelerate the line's deterioration."

It is ludicrous for the Port to compare CORP's actions with the egregious behavior at issue in *Railroad Ventures*. While Railroad Ventures plainly was abusing the Board's processes and thumbing its nose at its common carrier obligation, CORP spent millions of dollars maintaining and repairing the Coos Bay Subdivision in the years before it was forced to embargo the line. Indeed, CORP repaired a bridge on the line during the embargo in the expectation that service could be restored. *See* Reb. V.S. Lundberg at 8-9. And while Railroad Ventures affirmatively and deliberately "caused the damage" that it was ordered to repair, the deterioration of the tunnels on the Coos Bay Line was the result of natural aging of the century-old timber-lined tunnels that CORP inherited from SPT. In short, *Railroad Ventures* provides no support for ordering a short line carrier that acted in good faith and spent nearly half of its gross freight revenues on maintenance to pay rehabilitation costs (Reb. V.S. Lundberg at 8) on behalf of an acquiring feeder line applicant, particularly to an applicant like the Port that has access to sufficient capital to fund rehabilitation.[10]

Nor does the recent Kansas City Southern Railway Company ("KCS") *Warren County* decision support the Port's position. In *Warren County*, a rail bridge was partially dismantled by local government officials after KCS had filed for an abandonment exemption and parties had made an offer of financial assistance. In that case, the Board held that "diminishing the rail assets during the pendency of the OFA process undermines that process because it could obstruct or impede the efforts of the offeror to provide rail service." *Warren County* at 4 (emphasis

[10] The Port's reliance on *ICC v Maine Centr R R Co*, 505 F.2d 590, 592, 595 (2d Cir. 1974) is inexplicable; in that case a railroad refused to repair its embargoed line even after a shipper offered to pay the entire rehabilitation cost

added). As a result, the Board found that "the abandoning railroad [is] responsible for ensuring that a rail line that is the subject of an OFA remains in substantially the same condition it was in when the railroad filed for abandonment authority." *Id* at 5 (emphasis added). The Board's decision in *Warren County* was predicated on the fact that the rail assets were diminished after parties had offered to purchase the line under the OFA procedures. The rule of *Warren County* is simply that while an OFA is pending a railroad must keep the line in "substantially the same condition it was in when the railroad filed for abandonment authority." *Id* at 5 (emphasis added) Neither *Warren County* nor any other Board decision supports the notion that a purchaser can demand that an incumbent carrier make a multi-million dollar capital investment to address a condition that pre-dated an abandonment (or feeder line) proceeding.

Finally, the Port cites to a hodgepodge of cases for the proposition that the Board has "equitable" authority to issue the unprecedented relief the Port demands. *See* Port Comments at 25.[11] But, as one of the cases cited by the Port makes clear, the Board only has power to sanction a party through its statutory authority to carry out the ICCTA. *See Zola v ICC*, 889 F.2d 508, 515 (3d Cir. 1989). The Port's demand for a discounted feeder line purchase price is entirely inconsistent with the ICCTA, which makes no provision for forcing a rail carrier to repair a line that is acquired in a feeder line proceeding or otherwise permitting a feeder line purchase for anything less than the line's constitutional minimum value.

The Port's further claim that the Board must fashion a "unique remedy" in this case to "enforce the common carrier obligation" is based on a false premise. There is a viable and appropriate remedy for shippers who believe that CORP violated its common carrier obligation

[11] For example, *Albemarle Paper Company v. Moody*, 422 U S. 405 (1975), addressed the standards for awarding back pay for Title VII employment discrimination violations and has no conceivable application to the context of this case

and instituted an unlawful embargo—to seek damages for any increased shipping expenses they experienced during the time of an unlawful embargo. *See, e g , Bar Ale, Inc v. California Northern R Co and Southern Pacific Transp Co*, STB Fin. Docket No. 32821, at 5 (served July 20, 2001) ("If an embargo becomes unreasonable, the carrier is no longer excused from its duty to provide service and may be liable to shippers for damages"); *GS Roofing Prods Co v STB*, 143 F.3d 387, 394 (8th Cir. 1997) (railroad "liable to the shippers for such damages as they suffered during the period starting on the date on which the line should have been restored to service following the imposition of the embargo and ending on the date service was actually restored"); *Ethan Allen, Inc v Maine Cent R R. Co*, 431 F. Supp. 740, 743 (D. Verm. 1977). In short, the Port's claim that the Board should permit the Port to buy the line at a discounted price in order "to secure complete justice" for shippers on the line is unfounded. To the contrary, the Port's argument is a transparent attempt to reap a financial windfall by purchasing the line for less than its constitutional minimum value.[12] Port Comments at 25.

2. CORP Did Not Cause The Deteriorated Tunnel Conditions That Necessitated The Embargo.

Even if there were some legal basis for the Port's demand that CORP pay for rehabilitation of the tunnels before a forced sale – and there is not – the record evidence clearly does not justify such an order. The need for a major rehabilitation of the rail tunnels on the line is the natural consequence of the fact that these timber-lined tunnels date from the nineteenth century. *See* Reb. V.S. Lundberg at 2. In a recent report, Oregon DOT found that:

> Rail tunnels also suffer from aging issues. There are 69 railroad tunnels in Oregon, of which 34 are on the short line system. Except for one, all of the short line tunnels were dug between 1883 and 1916. The original builders framed the

[12] As CORP has explained previously, the embargo was predicated on well-documented safety concerns and was not unlawful at any time. CORP refers the Board to CORP's response to the Board's Show Cause Order in Docket No. 35130.

> tunnel interior with massive timber "ribs," significant sections of which still serve today Over the years, the timber decays which affects the stability of the tunnels

Reb V.S. Lundberg, Attachment 1 at 3

As ODOT's assessment indicates, the situation with respect to the tunnels on the Coos Bay Subdivision is by no means unique. To the contrary, such "aging issues" are endemic to older timber-lined tunnels in Oregon, including dozens of tunnels located on other Oregon short lines. The tunnels on the Coos Bay Subdivision were already a century old when CORP acquired the line in 1994, and they had begun to deteriorate because of their age. *See* Reb. V S. Lundberg at 2. As explained in the Verified Statement of Steven Patton, the tracks on the Coos Bay Subdivision were also in a declining state of repair at the time the line was purchased by CORP, due to cutbacks in maintenance by SPT for several years prior to the sale. *See* Reb. V.S. Patton. Mr. Patton explains that during the 1970's and early 1980's, a time when the Coos Bay Subdivision handled a far greater volume of traffic than it does today, the line was well-maintained. SPT performed regular maintenance work on the tunnels along the Coos Bay Subdivision during that period. However, even with that level of maintenance the tunnels on the Coos Bay Subdivision, including Tunnel 15 – one of the tunnels that caused CORP to embargo the line in 2007 – showed substantial signs of deterioration and required significant attention by SPT repair crews.

Over time, SPT did not sustain its prior level of maintenance on the Coos Bay Subdivision. During the last five years before it sold the Coos Bay Subdivision to CORP, SPT did not perform any significant rehabilitation of the aging tunnels on the line. *See* Reb. V.S. Patton at 2-3. As a result, when CORP acquired the Coos Bay Subdivision, the line already suffered from a substantial amount of deferred maintenance and little tunnel work had been

performed in five years. Any suggestion that CORP bought a rail line in pristine condition and allowed the tunnels to deteriorate to their present condition through neglect is simply not correct.

Witnesses at the August 21 hearing confirmed that the deteriorated condition of the tunnels on the line predated CORP's ownership Edward Immel, a former ODOT rail planner, confirmed that the line was "very, very difficult" to maintain and that in 1994 the State was aware of the significant expenses required to maintain the line in adequate condition. *See* August 21 Hearing Tr at 277 (Immel) At that same hearing, former SPT employee Mr. Nugent agreed that "the tunnel conditions that eventually prompted the discontinuance of service were readily apparent" at the time of CORP's acquisition of the line. *See id* at 286 (Nugent). In short, there is no question that CORP inherited a line with deteriorated tunnels, and that the current condition of those tunnels is the result of long-term aging issues that are common to older, timber-lined tunnels, not intentional neglect by CORP.

The Port's attempt to attribute the condition of the tunnels to neglect by CORP is contradicted by the Port's own evidence in the *Show Cause Proceeding*, which indicates that the tunnels were in a deteriorated condition before SPT sold the Coos Bay Subdivision to CORP. *See* Reb. V.S. Lundberg at 2. A report prepared by Shannon & Wilson in 1994 (at the request of Montana Rail Link, which apparently considered making a competing offer to buy the line) found "important instability requiring immediate repair" in several of the tunnels (including both Tunnel 15 and Tunnel 18). *See* Port Reply in *Show Cause Proceeding*, Exhibit 5 at 2-3.[13] Shannon & Wilson recommended a major tunnel rebuilding project involving "the removal of timber sets and re-lining with shotcrete and rock bolts in stable ground and with steel sets and

[13] It should be emphasized that this report was prepared for Montana Rail Link—not CORP. Mr. Lundberg was unaware of this report before the Port attached it to its filing in the Show Cause Proceeding, and there is no indication that CORP (or RailAmerica) were aware of its contents when CORP acquired the Coos Bay Subdivision. *See* Reb. V.S. Lundberg at 3 n.1.

shotcrete or concrete in unstable ground." Reb. V.S Lundberg at 2 The cost of such a project was estimated to be approximately $8 million. *Id.* This contemporaneous evidence shows that the need for major rehabilitation of certain tunnels on the Coos Bay Subdivision predated CORP ownership of the property. *See id* at 3. In short, the evidence is clear that the tunnel conditions preexisted CORP's acquisition of the line, and did not arise during the time CORP operated the line.

3. CORP Did Not Defer Maintenance On The Line.

The Port's claim that CORP has pursued a "milk the asset" strategy by intentionally deferring maintenance of the Coos Bay Subdivision is demonstrably false. The truth of the matter is that CORP has invested in maintaining and improving the Coos Bay Subdivision at a far greater rate than is customary throughout the rail industry. *See* Reb. V.S. Lundberg at 6. Indeed, CORP increased spending for both ordinary maintenance and capital expenditures on the Coos Bay Subdivision even after the line became unprofitable. *See id* Table 1 sets forth CORP's revenues, operating income, maintenance and capital investments on the Coos Bay Subdivision for the years 2002 – 2007 (up to the date of the embargo).

TABLE 1[14]

Coos Bay Line Revenues, Operating Income, Maintenance Expenses, and Capital Spending

	2002	2003	2004	2005	2006	2007
Total Annual Revenue	$3,068	$3,522	$2,418	$3,050	$3,360	$2,674
Operating Income	$235	$552	($578)	($939)	($1,172)	($792)
Track, Bridge & Crossing Maintenance	$560	$740	$662	$738	$934	$721
Capital Spending	$269	$431	$257	$1,280	$1,775	$567
Maintenance Spending as Percentage of Revenue	18.2%	21.0%	27.4%	24.2%	27.8%	27.0%
Capital Spending as Percentage of Revenue	8.8%	12 2%	10.6%	42.0%	52.8%	21 2%

[14] All amounts in Table 1 are expressed in thousands.

Maintenance and Capital Spending as Percentage of Revenue	27.0%	33.2%	38.0%	66.2%	80.6%	48.2%

As Table 1 shows, between 2002 and 2007, CORP spent an average of 24 percent of the annual gross freight revenues earned on traffic moving over the Coos Bay Subdivision for ordinary track, bridge and crossing maintenance on the line. *See* Reb. V.S Lundberg at 7. In 2006 (the last full year of operations), the cost of ordinary track, bridge and crossing maintenance on the Coos Bay Subdivision rose to $934,000, or 27.8 percent of the $3.360 million in gross freight revenues generated by traffic on the line *See id.* By comparison, the cost of ordinary maintenance on the lines operated by RailAmerica's 41 short line carriers averages approximately 13 percent of gross freight revenues. *See id* CORP's maintenance spending as a percentage of revenues is also much higher than the prevailing rate of maintenance in the railroad industry—in 2006, the aggregate expenditure by Class I rail carriers for all "Ways and Structures" (which includes more than track, bridge and crossing maintenance) equaled only 13.1% of their aggregate gross operating revenues.[15] *See id.* at 7-8.

When extraordinary capital expenditures are considered, CORP's good faith effort to maintain the Coos Bay Subdivision is even more clear. As Table 1 indicates, between 2002 and 2007, CORP invested an additional 25% of the annual gross freight revenues earned on traffic moving over the Coos Bay Subdivision in extraordinary capital projects on the line. *See id* at 8. In 2005 and 2006 – years in which CORP lost approximately $1 million from operations on the line – CORP made $1.28 million and $1.78 million, respectively, in capital expenditures on the Coos Bay Subdivision. *See id* Between 2002 and 2007, CORP's combined ordinary

[15] *See Class I Railroad Annual Report (R-1)*, Sched. 210, Line 13 (Total Railway Operating Revenue) and Sched 410, Line 151 (Total Way and Structures) as filed with the STB by each Class I railroad for 2005 and 2006 (at http //www.stb.dot.gov/stb/industry/econ_reports html).

maintenance and capital investment spending on the Coos Bay Subdivision consumed 49.4% – nearly half – of gross revenues from the line. *See id* Notwithstanding the substantial losses that CORP experienced from operations on the Coos Bay Subdivision, CORP's combined ordinary maintenance and capital investment spending on the line rose to 66.2% of gross revenues from the line in 2005 and 80.6% of gross revenues in 2006. *See id* Such a level of investment is hardly indicative of a strategy to "milk" an asset by deferring maintenance.

CORP has likewise pursued an aggressive program of routine maintenance for bridges on the Coos Bay Subdivision. Each year, OSMOSE Inc., an expert bridge engineering and repair firm, conducts an inspection of all of the bridges on CORP's lines *See id.* at 8. Based upon that inspection, OSMOSE identifies both short-term repair requirements and longer term conditions with respect to particular bridges that warrant monitoring. *See id* Based upon those recommendations, CORP authorizes OSMOSE to perform needed repairs to bridges on an annual basis. *See id* at 8-9. CORP has undertaken substantial bridge work on the Coos Bay Subdivision in every year between 2001 and 2007 – indeed, CORP authorized repairs to the bridge at Milepost 743.73 near Reedsport, OR (on the Coos Bay Subdivision) in October 2007, a month after the embargo was initiated. *See* Reb. V.S. Lundberg Attachment 6.

4. CORP's Maintenance Of Tunnels On The Line Was Reasonable.

The Port's suggestion that CORP failed to take any action to maintain the tunnels since 1994 is likewise untrue. Since it acquired the line CORP, like SPT before it, has performed ordinary maintenance on tunnels on the Coos Bay Subdivision to the extent necessary to permit continued rail service *See* Reb. V S. Lundberg at 3. To be sure, CORP has not undertaken a major capital program to rebuild the tunnels on the Coos Bay Subdivision. *See id* Such a major capital program could never have been economically justified by the traffic and revenues generated by the Coos Bay Subdivision, even prior to the loss of Weyerhaeuser's business in

2004 Indeed, it is likely that SPT's decision to dispose of the line was based in large measure upon its assessment that it could not earn a return on the capital required to address the long-term needs of the tunnels on the line. *See id.* The Coos Bay Subdivision has been, at best, a marginal rail line throughout the period in which CORP has owned and operated it. Even during its "best years" the line generated an operating profit of only a few hundred thousand dollars annually. With a declining traffic base, limited prospects for attracting substantial new business to the line, and CORP's inability (under its marketing arrangement with SPT/UP) to enhance revenues by raising rates, CORP simply could not afford to embark upon a massive program to rebuild the tunnels on the Coos Bay Subdivision. *See id.* at 3-4.

Contrary to the Port's assertions, CORP did seek public funding to address the need to rehabilitate tunnels on the Coos Bay Subdivision. *See* Reb. V.S. Lundberg at 4. In 2004, Milbor-Pita & Associates ("Milbor-Pita") was engaged by CORP to assess the condition of the tunnels on both the Coos Bay Subdivision and the Siskiyou Subdivision. *See* Reb. V.S. Lundberg Attachment 2. The Milbor-Pita report found that three of the nine tunnels on the Coos Bay Subdivision were in "A" condition ("no work required"); two were in "B" condition (indicating that "remedial work would eventually be required long-term, estimated at greater than 5 years from the present"); and that four tunnels were in "C" condition (requiring that "remedial work should be done as soon as possible"). *See id.* at CORP-C-000302. Milbor-Pita recommended that short-term repairs be undertaken in Tunnels 13, 15 and 20. *Id* at CORP–C-000298.

The Port's allegation that CORP "took no action" in response to the Milbor-Pita report (Port Comments at 19-20) is demonstrably false. Upon reviewing the report, CORP promptly commissioned Milbor-Pita to prepare a set of "Plans and Specifications" for the recommended

short-term tunnels repairs on both the Coos Bay and Siskiyou Subdivisions *See* Reb. V.S. Lundberg at 4. Those Plans and Specifications were delivered to CORP in February 2005. *See id* Attachment 3. The plans prepared by Milbor-Pita included detailed specifications for liner replacement in Tunnels 13, 15 and 20 on the Coos Bay Subdivision. Based upon the Plans and Specifications provided by Milbor-Pita, CORP solicited bids for the rehabilitation of Tunnels 13, 15 and 20 CORP received bids for that work of approximately $[ ] from Johnson Western Gunite Company (in March 2005) and approximately $[ ] from Drill Tech Drilling & Shorage. Inc. (in May 2005). *See id.* Attachment 4.

Given the magnitude of the cost of rehabilitating Tunnels 13, 15 and 20 (as reflected in the bids), the fact that CORP was at that time engaged in a major tunnel repair project on the Siskiyou Subdivision, and the loss of the Weyerhaeuser business (which had turned the modest profit from operations on the Coos Bay Subdivision into a loss of more than half a million dollars in 2004), CORP submitted an application to Oregon DOT ("ODOT") for funding under the "ConnectOregon" program. *See* Reb. V.S. Lundberg at 5. Among the projects for which CORP sought funding in that application was the "[r]epair [of] tunnel lining in tunnels 13, 15 and 20 on the Coos Bay Subdivision." *See id.* Attachment 5, Application at 8. In total, CORP proposed to undertake $12.3 million in capital work on its rail lines, for which it requested a "ConnectOregon" grant of $7.3 million, to be matched by a commitment of $5.0 million by CORP. *See id*, Application at 1. Unfortunately, ODOT did not grant the requested funding to CORP.

Nevertheless, after an October 2006 joint inspection by FRA and ODOT revealed conditions requiring immediate action in Tunnel 15, CORP hired a contractor to perform repairs to that tunnel at CORP's sole expense. *See* Reb. V S Lundberg at 5 During those repairs,

Tunnel 15 collapsed, increasing the cost of repairs (initially estimated to be $350,000 - $400,000) to approximately $1.7 million *See id* This was not the first time that CORP invested large sums to perform extraordinary tunnel work. When a fire caused extensive damage to Tunnel 21 in 1998, CORP performed major capital work to rebuild the tunnel interior and track structure and restore service. *See id* In 2004, CORP leased a Loram RailVac machine to remove mud and water from the trackbed and ditches in Tunnel 13, in order to address drainage problems in that tunnel *See id.*

In short, the Port's assertion that CORP "took no action to properly maintain the tunnels" on the Coos Bay Subdivision (Port Comments at 19-20) is wrong. As stated above, CORP has not only performed ordinary maintenance in the tunnels, it has invested substantial amounts for extraordinary tunnel work – including $1.7 million to repair Tunnel 15 in 2006, notwithstanding ODOT's refusal to provide any assistance for such work and the fact that mounting losses on the Coos Bay Subdivision made it highly unlikely that CORP would ever earn a positive return on that investment.[16]

5. CORP's Embargo Of The Line And Eventual Decision To Abandon The Line Were Not An Effort to "Milk the Asset."

The Port vaguely alleges that CORP has engaged in a "calculated" plan to abandon the Coos Bay Subdivision. Port Comments at 4-5. At the hearing in Eugene on August 21, 2008,

[16] The insinuation that Fortress's acquisition of CORP's parent, RailAmerica, resulted in a cessation of line maintenance on the Coos Bay Subdivision is likewise unfounded. *See* Reb. V.S. Lundberg at 9. Fortress announced its acquisition of RailAmerica on November 15, 2006, and the transaction was consummated on February 14, 2007. As Table 1 demonstrates, CORP spent $1,308,000 on ordinary maintenance and capital expenditures on the Coos Bay Subdivision during 2007. Moreover, one of the largest capital expenditures in CORP's history—the $1.7 million repair of Tunnel No. 15 between November 2006 and January 2007—was undertaken after Fortress agreed to acquire RailAmerica. *See id* As these facts demonstrate, any suggestion that ownership by Fortress led CORP to curtail its investment in the Coos Bay Subdivision is nonsense.

Port witness Bishop suggested that the timing of the embargo and abandonment were designed to take advantage of rising scrap metal prices Witness Bishop does not explain how CORP could have known in September 2007 that metals prices would rise substantially during 2008. Contrary to the Port's unsupported allegations, CORP's decision to embargo the Coos Bay Subdivision was made necessary by well-documented safety issues with the tunnels. *See* Reb. V.S. Lundberg at 10. Within days after the embargo was initiated, the FRA inspected the subject tunnels and confirmed that continued operation in those tunnels was "hazardous to train traffic and maintenance operations." *See* CORP Reply in *Show Cause Proceeding*, Exhibit 7. The timing of the embargo was based upon safety concerns, not by a desire to "take advantage" of conditions in the metals market.

After embargoing the line for those safety reasons, CORP made an economic assessment of the cost of undertaking the necessary repairs in light of existing traffic and future prospects for the line. *See* Reb. V.S. Lundberg at 10. Facing operating losses that had reached more than $1 million annually, and with no realistic prospect for offsetting those losses by raising rates or attracting new business to the line, CORP simply could not justify an immediate investment of $2.9 million to repair the tunnels on the Coos Bay Subdivision. *See id.* Indeed, CORP's experience in November 2006, when the cost of repairing Tunnel No. 15 grew from an estimated $350,000 - $400,000 to $1.7 million, gave it pause about embarking on a major capital expenditure that was highly unlikely to generate a positive return. CORP concluded that, absent public participation in the cost of repairing the tunnels and mitigation of the mounting losses from operations, rail service on the Coos Bay Subdivision could not continue. *See id.* at 10-11. Moreover, the State's insistence that CORP assume the full cost of tunnel repairs, and restore operations on the line, before the State would even consider participating in a collaborative effort

to preserve service, placed CORP in an untenable position. *See id* at 11 Given ODOT's refusal to authorize any part of CORP's "ConnectOregon" application in 2006 (which included funding earmarked for repairs to Tunnels 13, 15 and 20), CORP was not confident that, once the tunnels were repaired and the immediate crisis passed, the State would, in fact, provide funding for the other needs of the Coos Bay Subdivision. *See id* When CORP's efforts to forge a public/private partnership to provide such assistance failed, it reluctantly moved forward with its abandonment application. *See id*

6. There Was No Unlawful Abandonment Of The Line.

The Port anchors its unprecedented demand that CORP pay for tunnel repairs before selling the line to the Port on an unsupported allegation that CORP has unlawfully abandoned the line in "violation of its common carrier obligation." Port Comments at 24. There was no unlawful abandonment of the line; to the contrary, CORP embargoed the line because of safety concerns, then diligently tried to save the line by attempting to forge the same sort of long-term solution now proposed by the Port.

A railroad may be relieved of its common carrier obligation to provide transportation services on reasonable request if it is physically unable to serve specific shipper locations by placing an embargo on service to these locations. *Decatur County Commrs v Surface Transp. Bd.*, 308 F.3d 710, 715 (7th Cir. 2002). The Board explains that "[i]t is well established that a carrier must decide in the first instance whether an unsafe condition exists that prevents it temporarily from providing service," and the Board "defer[s] to the operating carrier's opinion." *Groome & Assocs v Greenville County Econ. Dev. Corp*, STB Docket No. 42087, slip op at 12 (July 27, 2005); *Bar Ale, Inc v Cal N R R Co*, Fin. Docket No 32821, slip op. at 7 (July 20, 2001) Embargoes are allowed <u>whenever</u> a service is unsafe or impossible, "consistent with the

public safety which is better served if the railroads freely exercise judgment in favor of embargo under unsafe conditions, without fearing liability." *Baker*, 451 F. Supp. at 876

A valid embargo must be distinguished from an abandonment, which is "a permanent or indefinite cessation of service." *Gen Foods Corp v. Baker*, 451 F. Supp. 873, 876 (D. Md. 1978). "Because both abandonment and embargo entail a cessation of service, the question of whether an embargo has been transmuted into an unlawful abandonment revolves largely around the length of the cessation and intent of the railroad." *ICC v. Balt & Annapolis R R Co.*, 398 F. Supp. 454, 462 (D. Md. 1975).

The length of an embargo will not be deemed to be unreasonable while a rail carrier is making reasonable efforts to negotiate with interested parties to secure funding for the repair and continued operation of the line. Indeed, the Board has found that an embargo was reasonable during a two-year period in which the carrier attempted to obtain funding to restore service on the line. *See Groome* at 15; *see also Decatur County Comm'rs*, 308 F.3d 710 (upholding Board's determination that a twenty-month embargo was not unreasonable). In *ICC v. Baltimore & Annapolis Railroad*, by contrast, the railroad maintained an embargo for three years, even though it had the financial ability to make the necessary repairs and never sought outside public or private assistance to finance the repairs. 398 F. Supp. at 462.

Closely related to the issue of time, in determining whether an embargo is reasonable, the Board considers whether the carrier intended to use the embargo as a means to effect an unlawful *de facto* abandonment. *Bolen-Brunson-Bell Lumber Co v. CSX Transp Inc. ("BBB Lumber")*, STB Fin. Docket No. 34236, 2003 WL 21108185, at *3 (May 15, 2003). As part of this inquiry, the Board considers whether the carrier deliberately allowed the line to deteriorate to a non-operable condition in order to hasten its closure. *See id* Here, the record plainly demonstrates

that, in the time leading up to the embargo, CORP invested substantial sums for both ordinary maintenance of the Coos Bay Line and to address problems in the tunnels on the line. In fact, the first tunnel collapse (in tunnel 15) that precipitated the events leading to the embargo occurred while CORP was attempting to repair that tunnel

There is no question that CORP's initial decision to stop service by placing an embargo on the line was proper. Indeed, at the hearing in *Ex Parte No. 677* on April 25, 2008, Chairman Nottingham stated that "I don't think you'll get anybody from the Board questioning this – that the Federal Railroad Administration did a solid job of inspecting the situation in the wake of your embargo last fall, and the FRA put together a report that certainly indicates serious safety problems with those tunnels, and I'm not here to second-guess what could very well have been a life and death decision that RailAmerica had to make to put safety first, based on what I saw confirmed in that FRA report."[17]

Nor did CORP intend to abandon the line at any time before filing its Notice of Intent to Abandon the Abandonment Segment. Indeed, as recognized by the Port, CORP consistently told affected parties that "we plan[ned] to reopen" as soon as possible. Port Comments at 9. Rather than move immediately to seek authority to abandon the Coos Bay Line, CORP attempted to forge a "public-private" partnership of interested stakeholders (including UP, the State of Oregon, the Port, and shippers) to participate in a plan to preserve rail service over the line. CORP proffered multiple proposals designed to address both the capital needs of the Coos Bay Line and the ongoing losses generated from CORP's operations over the line. CORP did not at any time intend to abandon the line until it became clear that its proposals would not garner support.

[17] *See* Ex Parte No. 677, *Common Carrier Obligation of Railroads*, April 25 Hearing Tr. at 161-162, (Comments of Chairman Nottingham).

Ironically, the effort by CORP to build a public-private partnership—which has been criticized as a "preposterous and ill faith proposal" (see August 21 Hearing Tr. at 25 (DeFazio))—is exactly what the Port proposes to do in connection with its Feeder Line Application in Fin. Docket No. 35160. As the Port's application shows, and as the proposals made by CORP to try to resume service made clear, there is no other way to make the Coos Bay Subdivision a viable transportation option for the shippers and communities involved. It would be inconsistent, to say the least, to hold that CORP's proposals and attempts to forge the same public-private partnerships that the Port now trumpets constituted an unlawful abandonment.

Finally, even if the Board were to determine that CORP's embargo was an unlawful abandonment, the remedy is not to allow the Port to "discount" the NLV of the Line. The *remedy is for shippers who believe they were injured to seek damages for any increased shipping* expenses they experienced during the time of an unlawful embargo *See supra* at 31. The Port—a non-shipper that was not damaged by the embargo in any way—is not entitled to use any supposed unlawful abandonment to purchase the line at less than its constitutional minimum value.

C. The Port's Self-Serving Demands Would Create A Strong Disincentive To Invest In Marginal Rail Lines.

The Port's unprecedented demand that CORP pay "damages" in connection with its abandonment of an unprofitable rail line would have devastating public policy consequences, by discouraging investment in short line railroads and ultimately leading to the abandonment of marginal branch lines nationwide. The American Short Line and Regional Rail Association has stated that the Port's position that CORP should be held responsible for the cost of rebuilding the tunnels on the Coos Bay Subdivision would lead to "the abrupt and permanent end to the acquisition of all marginal rail lines by class II and class III carriers in the United States." *See*

Reb. V.S. Lundberg, Attachment 8, at 1 (Letter of Richard E. Timmons. Fin Docket No. 35130 (June 16, 2008)). Mr Timmons notes that short line railroads "simply cannot afford the cost of immediate upgrade to lines subject to prior long periods of deferred maintenance, and even if they could, it would not be economic to do so." *Id* Short line carriers have been successful because they are able to operate low-density branch lines at lower cost than Class I railroads. This model cannot survive if short lines are expected to bring "long neglected rights of way . . up to a gold plated standard." *Id* Such a requirement would exacerbate the already-risky proposition of acquiring a marginal rail line with deferred maintenance to the point where acquisition of such a line "would make no economic sense for the purchaser." *Id* at 2. In short, acceding to the Port's short-sighted demand that CORP pay "damages" or contribute to an "escrow fund" to rebuild the tunnels would have a devastating impact on the short-line industry and would, in all likelihood, lead to the abandonment of dozens of marginal rural lines like the Coos Bay Subdivision across the country. *See* Reb. V.S. Lundberg at 13.

The utter illogic of the Port's interpretation of the "common carrier obligation" is further illustrated by its complaint that CORP "should have begun the abandonment process for the Line years ago." Port Comments at 22. According to the Port, if CORP was not willing to undertake a major capital program to rebuild tunnels on the line, it should have sought abandonment "while the Line was still operational." *Id* In other words, the Port claims that CORP violated its common carrier obligation by providing rail service to shippers between 2004 and 2007. Promoting such a "quick trigger" abandonment policy might serve the Port's objective in this case to extract some sort of damages from CORP, but the Port's position would have a disastrous effect on rail service in the real world. To hold that the common carrier obligation requires a carrier operating a marginal branch line either to fund capital improvements that cannot be

justified by the traffic and revenues on the line, or to abandon the line as soon as it becomes unprofitable, would create a powerful incentive for railroads to simply "give up" on marginal lines. The fact is that most low-density branch lines have some flaws and could use some rehabilitation that may not be justified by operating revenues on those lines Requiring carriers to choose between undertaking costly capital investments or seeking abandonment of the subject lines would lead to a rash of abandonments on rural lines that may still have prospects for survival.

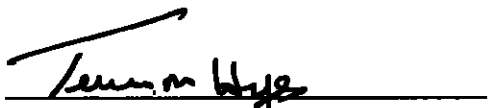
In short, the Port's self-serving campaign to persuade the Board to "punish" CORP simply because the rail line that the Port seeks to acquire in the feeder line proceeding will require rehabilitation would have serious adverse effects on the short line industry and rail service in general. The Board, which has the broader responsibility "to ensure the development and continuation of a sound rail transportation system," should reject the Port's short-sighted demands. 49 U.S.C. § 10101(4). If the Port wishes to purchase the Coos Bay Subdivision and to restore rail service, then it must pay the constitutional minimum value—an amount that the Port can amply afford in light of its representations of access to multiple sources of government funding and shipper subsidies.

CORP sincerely hopes that the public-private partnership the Port has created – a partnership much like the one CORP proposed last fall – can successfully restore rail service on the line. If the Port's feeder line application is granted, CORP will cooperate with the new purchasers to facilitate a transition All CORP asks in return is what it is entitled to under the Constitution—the full NLV of the property that the Port proposes to take, undiluted by any of the unprecedented and unlawful "discounts" the Port asks the Board to make to the purchase price.

CONCLUSION

For the reasons set forth in the Application, this Rebuttal, and in the accompanying Verified Statements and Exhibits, CORP respectfully requests that the Board authorize the abandonment of and discontinuance of service over the Coos Bay Subdivision.

Respectfully submitted,



Scott G. Williams
Senior Vice President and
General Counsel
RailAmerica, Inc.
5300 Broken Sound Boulevard N.W.
Boca Raton, Florida 33487
(561) 994-6015

Terence M. Hynes
Paul A. Hemmersbaugh
Matthew J. Warren
Noah Clements
Sidley Austin LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

Counsel for Central Oregon & Pacific Railroad, Inc

Dated: September 12, 2008

CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of September, 2008. I served by first class mail, postage prepaid, a copy of the Rebuttal to Protests of Central Oregon & Pacific Railroad, Inc. to all parties listed in the official service list in this proceeding.

Richard Bryan

PUBLIC VERSION

BEFORE THE
SURFACE TRANSPORTATION BOARD

Central Oregon & Pacific Railroad, Inc. – Abandonment and Discontinuance of Service – in Coos, Douglas, and Lane Counties, Oregon (Coos Bay Rail Line)	)	Docket No. AB-515 (Sub-No. 2)

REBUTTAL TO PROTESTS

VERIFIED STATEMENTS
VOLUME 2 OF 2

Scott G. Williams
Senior Vice President and
General Counsel
RailAmerica, Inc.
5300 Broken Sound Boulevard N.W.
Boca Raton, Florida 33487
(561) 994-6015

Terence M. Hynes
Paul A. Hemmersbaugh
Matthew J. Warren
Noah Clements
Sidley Austin LLP
1501 K Street, N.W.
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(202) 736-8000

Counsel for Central Oregon & Pacific Railroad, Inc.

Dated: September 12, 2008

LUNDBERG

BEFORE THE
SURFACE TRANSPORTATION BOARD

Central Oregon & Pacific Railroad Co. – Abandonment and Discontinuance of Service – in Coos, Douglas and Lane Counties, Oregon (Coos Bay Rail Line)	)	Docket No. AB-515 (Sub-No. 2)

VERIFIED STATEMENT OF PAUL LUNDBERG

My name is Paul Lundberg. I am Senior Vice President – Strategic Relations of RailAmerica, Inc. I also serve as Vice President of Central Oregon & Pacific Railroad, Inc. ("CORP"). My business address is 7411 Fullerton Street, Jacksonville, FL 32256. My background and qualifications are described in detail in the Verified Statement that I submitted on July 14, 2008 in connection with CORP's Abandonment Application in this proceeding.

The purpose of this Verified Statement is to respond to allegations by the Oregon International Port of Coos Bay (the "Port") that "CORP's own neglect caused the tunnel deterioration" on the Coos Bay Subdivision (Port Comments at 3); that CORP "took no action" to maintain the tunnels on the Coos Bay Subdivision during its ownership of the line (*id.* at 19-20); and that CORP never informed the State of Oregon that a substantial capital investment was needed in certain tunnels on the line (*id.* at 20). As my testimony and the Verified Statement of witness Patton show, those allegations are simply not true. In addition, I will explain why the Port's assertion that "CORP has been able to renegotiate the terms of the [Cooperative Marketing Agreement with UP] to its own benefit" (Port Comments at 12) is incorrect.

The tunnel conditions that required CORP to embargo a portion of the Coos Bay Subdivision in September 2007 are the result of the age of those tunnels (which are more than a century old)—not CORP's failure to maintain them. Nor has CORP neglected the track and bridges on the line—to the contrary, we have invested in both ordinary maintenance and capital

bridges on the line—to the contrary, we have invested in both ordinary maintenance and capital work on the Coos Bay Subdivision at levels that far exceed those typically undertaken by other railroads, including the Class I carriers. Indeed, CORP continued to spend heavily to maintain the Coos Bay Subdivision even after the modest profit generated by the line in prior years was wiped out as a result of the loss of Weyerhaeuser's business in 2004 The Port's unsupported claim that CORP pursued a strategy to "milk" the Coos Bay Subdivision is utterly inconsistent with the facts

I. Tunnels On The Line Deteriorated Because of Age—Not CORP's Neglect

The need for a major rehabilitation of the rail tunnels on the Coos Bay Subdivision is the natural consequence of the fact that these timber-lined tunnels date from the nineteenth century. In a recent report, Oregon DOT found that:

> Rail tunnels also suffer from aging issues There are 69 railroad tunnels in Oregon, of which 34 are on the short line system. Except for one, all of the short line tunnels were dug between 1883 and 1916. The original builders framed the tunnel interior with massive timber "ribs," significant sections of which still serve today. Over the years, the timber decays which affects the stability of the tunnels.
>
> (*See* Attachment 1 at 3.)

As ODOT's assessment indicates, the situation with respect to the tunnels on the Coos Bay Subdivision is by no means unique. To the contrary, such "aging issues" are endemic to older timber-lined tunnels in Oregon, including dozens of tunnels located on other Oregon short lines.

The tunnels on the Coos Bay Subdivision were already a century old when CORP acquired its rail lines from Southern Pacific Transportation Company ("SPT") in late 1994. The Port's attempt to attribute the condition of the tunnels to neglect by CORP is contradicted by the Port's own evidence in the *Show Cause Proceeding*, which indicates that the tunnels were in a deteriorated condition before SPT sold the Coos Bay Subdivision to CORP. A report prepared by Shannon & Wilson in 1994 (at the request of Montana Rail Link, which apparently

considered making a competing offer to buy the line) found "important instability requiring immediate repair" in several of the tunnels (including both Tunnel 15 and Tunnel 18). *See* Port Reply in *Show Cause Proceeding*, Exhibit 5 at 2-3.[1] Shannon & Wilson recommended a major tunnel rebuilding project involving "the removal of timber sets and re-lining with shotcrete and rock bolts in stable ground and with steel sets and shotcrete or concrete in unstable ground." *Id.* The cost of such a project was estimated to be approximately $8 million *Id* This contemporaneous evidence shows that the need for major rehabilitation of the aging tunnels conveyed by SPT to CORP predated CORP's ownership of the property.

More importantly, the traffic and revenues generated by the Coos Bay Subdivision could never have justified such a massive capital expenditure by CORP, even prior to the loss of Weyerhauser's business in 2004. Indeed, it is likely that SPT's decision to dispose of the line was based in large measure upon its assessment that it could not earn a return on the capital required to address the long-term needs of the tunnels on the line. The Coos Bay Subdivision has been, at best, a marginal rail line throughout the period in which CORP has owned and operated it. Even during its "best years" the line generated an operating profit of only a few hundred thousand dollars annually. With a declining traffic base, limited prospects for attracting substantial new business to the line, and CORP's inability (under its marketing arrangement with SPT/UP) to enhance revenues by unilaterally raising rates, CORP simply could not afford to embark upon a massive program to rebuild the tunnels on the Coos Bay Subdivision. However, as witness Patton testifies, prior to the embargo in September 2007, CORP did perform the ordinary maintenance in the tunnels on the Coos Bay Subdivision required to keep the line operational

[1] Neither I (nor, to my knowledge, anyone else at RailAmerica) was aware of the 1994 Shannon & Wilson report before it was submitted by the Port in the *Show Cause Proceeding*

Moreover, contrary to the Port's assertions, CORP did seek public funding to address the need to rehabilitate tunnels on the Coos Bay Subdivision In 2004, Milbor-Pita & Associates ("Milbor-Pita") was engaged by CORP to assess the condition of the tunnels on both the Coos Bay Subdivision and the Siskyou Subdivision A copy of the 2004 Milbor-Pita report is set forth in Attachment 2.[2] The Milbor-Pita report found that three of the nine tunnels on the Coos Bay Subdivision were in "A" condition ("no work required"); two were in "B" condition (indicating that "remedial work would eventually be required long-term, estimated at greater than 5 years from the present"); and that four tunnels were in "C" condition (requiring that "remedial work should be done as soon as possible"). *See* Attachment 2 at page CORP-C-000302. Specifically, Milbor-Pita recommended that short-term repairs be undertaken in Tunnels 13, 15 and 20. Attachment 2 at page CORP–C-000298.

The Port's allegation that CORP "took no action" in response to the Milbor-Pita report is demonstrably false Upon reviewing the report, CORP promptly commissioned Milbor-Pita to prepare a set of "Plans and Specifications" for the recommended short-term tunnels repairs on both the Coos Bay and Siskyou Subdivisions. A copy of those Plans and Specifications, which were delivered to CORP in February 2005, are set forth in Attachment 3. The plans prepared by Milbor-Pita included detailed specifications for liner replacement in Tunnels 13, 15 and 20 on the Coos Bay Subdivision. *See* Attachment 3. Based upon the Plans and Specifications drawn up by Milbor-Pita, CORP solicited bids for the rehabilitation of Tunnels 13, 15 and 20. CORP received bids for that work of approximately $[ ] from Johnson Western Gunite Company

[2] The document submitted by the Port as Exhibit 8 to its Reply in the *Show Cause Proceeding* is not the Milbor-Pita report. Rather, it appears to be a draft letter to CORP that is dated approximately 4 months before the Milbor-Pita report was completed.

(in March 2005) and approximately $[ ] from Drill Tech Drilling & Shorage, Inc. (in May 2005) Copies of those competitive bids are set forth in Attachment 4.

Given the magnitude of the cost of rehabilitating Tunnels 13, 15 and 20 (as reflected in the bids), the fact that CORP was at that time already engaged in a major tunnel repair project on the Siskyou Subdivision, and the loss of the Weyerhauser business (which had turned the modest profit from operations on the Coos Bay Subdivision into a loss of more than half a million dollars in 2004), CORP submitted an application to Oregon DOT ("ODOT") for funding under the "ConnectOregon" program. Among the projects for which CORP sought funding in that application was the "[r]epair [of] tunnel lining in tunnels 13, 15 and 20 on the Coos Bay Subdivision." *See* Attachment 5, Application at 8. In total, CORP proposed to undertake $12.3 million in capital work on its rail lines, for which it requested a "ConnectOregon" grant of $7.3 million, to be matched by a commitment of $5.0 million by CORP. Attachment 5, Application at 1. Unfortunately, ODOT did not grant the requested funding to CORP.

Nevertheless, after an October 2006 joint inspection by FRA and ODOT revealed conditions requiring immediate action in Tunnel 15, CORP hired a contractor to perform repairs to that tunnel at CORP's sole expense. During those repairs, Tunnel 15 collapsed, increasing the cost of repairs (initially estimated to be $350,000 - $400,000) to approximately $1.7 million. This was not the first time that CORP invested large sums to perform extraordinary tunnel work on the Coos Bay Subdivision. When a fire caused extensive damage to Tunnel 21 in 1998, CORP performed major capital work to rebuild the tunnel interior and track structure and restore service. In 2004, CORP leased a Loram RailVac machine to remove mud and water from the trackbed and ditches in Tunnel 13, in order to address drainage problems in that tunnel.

In short, the Port's assertion that CORP "took no action to properly maintain the tunnels" on the Coos Bay Subdivision (Port Comments at 19-20) is contrary to the facts CORP has not only performed ordinary maintenance in the tunnels, it has invested substantial amounts for extraordinary tunnel work—including $1.7 million to repair Tunnel 15 in 2006, notwithstanding ODOT's refusal to provide any assistance for such work and the fact that mounting losses on the Coos Bay Subdivision made it highly unlikely that CORP would ever earn a positive return on that investment.

II. CORP Has Not Deferred Maintenance On The Line.

The Port's claim that CORP has pursued a "milk the asset" strategy by intentionally deferring maintenance of the Coos Bay Subdivision is demonstrably false. The truth of the matter is that CORP has invested in maintaining and improving the Coos Bay Subdivision at a far greater rate than is customary throughout the rail industry. Indeed, CORP increased both ordinary maintenance and capital expenditures on the Coos Bay Subdivision even after the line became unprofitable. Table 1 sets forth CORP's revenues, operating income, maintenance and capital investments on the Coos Bay Subdivision for the years 2002 – 2007 (up to the date of the embargo).

TABLE 1[3]

Coos Bay Line Revenues, Operating Income, Maintenance Expenses, and Capital Spending

	2002	2003	2004	2005	2006	2007
Total Annual Revenue	$3,068	$3,522	$2,418	$3,050	$3,360	$2,674
Operating Income	$235	$552	($578)	($939)	($1,172)	($792)
Track, Bridge & Crossing Maintenance	$560	$740	$662	$738	$934	$721
Capital Spending	$269	$431	$257	$1,280	$1,775	$567
Maintenance Spending as Percentage of Revenue	18.2%	21.0%	27.4%	24.2%	27 8%	27.0%
Capital Spending as Percentage of Revenue	8.8%	12.2%	10.6%	42.0%	52.8%	21 2%
Maintenance and Capital Spending as Percentage of Revenue	27.0%	33.2%	38.0%	66.2%	80.6%	48.2%

As Table 1 shows, between 2002 and 2007, CORP spent an average of 24 percent of the annual gross freight revenues earned on traffic moving over the Coos Bay Subdivision for ordinary track, bridge and crossing maintenance on the line. In 2006 (the last full year of operations), the cost of ordinary track, bridge and crossing maintenance on the Coos Bay Subdivision rose to $934,000, or 27.8 percent of the $3.360 million in gross freight revenues generated by traffic on the line. By comparison, the cost of ordinary maintenance on the lines operated by RailAmerica's 41 short line carriers averages approximately 13 percent of gross freight revenues. CORP's maintenance spending as a percentage of revenues is also much higher than the prevailing rate of maintenance in the railroad industry—in 2006, the aggregate expenditure by Class I rail carriers for all "Ways and Structures" (which includes more than

[3] All amounts in Table 1 are expressed in thousands.

track, bridge and crossing maintenance) equaled only 13 1% of their aggregate gross operating revenues [4]

When extraordinary capital expenditures are considered, CORP's commitment to maintaining the Coos Bay Subdivision is even more clear. As Table 1 indicates, between 2002 and 2007, CORP invested an additional 25% of the annual gross freight revenues earned on traffic moving over the Coos Bay Subdivision in extraordinary capital projects on the line. In 2005 and 2006 – years in which CORP lost approximately $1 million from operations on the line (*see* Table 1) – CORP made $1.28 million and $1.78 million, respectively, in capital expenditures on the Coos Bay Subdivision. Between 2002 and 2007, CORP's combined ordinary maintenance and capital investment spending on the Coos Bay Subdivision consumed 49.4% – nearly half – of gross revenues from the line. Notwithstanding the substantial losses that CORP experienced from operations on the Coos Bay Subdivision, CORP's combined ordinary maintenance and capital investment spending on the line rose to 66.2% of gross freight revenues from the line in 2005 and 80.6% of gross freight revenues from the line in 2006. Such a level of investment is hardly indicative of a strategy to "milk" an asset by deferring maintenance.

CORP has likewise pursued an aggressive program of routine maintenance for bridges on the Coos Bay Subdivision. Each year, OSMOSE Inc., an expert bridge engineering and repair firm, conducts an inspection of all of the bridges on CORP's lines. Based upon that inspection, OSMOSE identifies both short-term repair requirements and longer term conditions with respect to particular bridges that warrant monitoring. Based upon those recommendations, CORP

[4] *See Class I Railroad Annual Report (R-1)*, Sched 210, Line 13 (Total Railway Operating Revenue) and Sched. 410, Line 151 (Total Way and Structures) as filed with the STB by each Class I railroad for 2005 and 2006 (at http //www stb.dot gov/stb/industry/econ_reports.html).

III. CORP's Embargo Of The Line And Eventual Decision To Abandon The Line Were Not An Effort To "Milk the Asset."

The Port vaguely alleges that CORP has engaged in a "calculated" plan to abandon the Coos Bay Subdivision Port Comments at 4-5. Indeed, at the hearing in Eugene on August 21, 2008. Port witness Bishop went so far as to suggest that the timing of the embargo and abandonment were designed to take advantage of rising scrap metal prices. (Witness Bishop does not explain how CORP could have known in September 2007 that metals prices would rise substantially during 2008.) Contrary to the Port's unsupported allegations, CORP's decision to embargo the Coos Bay Subdivision was made necessary by well-documented safety issues with the tunnels. Within days after the embargo was initiated, the FRA inspected the subject tunnels and confirmed that continued operation in those tunnels was "hazardous to train traffic and maintenance operations." *See* CORP Reply in *Show Cause Proceeding*, Exhibit 7. The timing of the embargo was based upon safety concerns, not by a desire to "take advantage" of conditions in the metals market

After embargoing the line for those safety reasons, CORP made an economic assessment of the cost of undertaking the necessary repairs in light of existing traffic and future prospects for the line. Facing operating losses that had reached more than $1 million annually, and with no realistic prospect for offsetting those losses by raising rates or attracting new business to the line, CORP simply could not justify an immediate investment of $2.9 million to repair the tunnels on the Coos Bay Subdivision. Indeed, our experience in November 2006, when the cost of repairing Tunnel No. 15 grew from an estimated $350,000 - $400,000 to $1.7 million, gave us pause about embarking on a major capital expenditure that was highly unlikely to generate a positive return. We concluded that, absent public participation in the cost of repairing the tunnels and mitigation of the mounting losses from operations, rail service on the Coos Bay Subdivision could not

continue. The State's insistence that CORP assume the full cost of tunnel repairs, and restore operations on the line, before the State would even consider participating in a collaborative effort to preserve service, placed CORP in an untenable position. Given ODOT's refusal to authorize any part of CORP's 2006 "ConnectOregon" application (which included funding earmarked for repairs to Tunnels 13, 15 and 20), CORP was not confident that, once the tunnels were repaired and the immediate crisis passed, the State would, in fact, provide funding for the other needs of the Coos Bay Subdivision. When our efforts to forge a public/private partnership to provide such assistance failed, we reluctantly moved forward with our abandonment application.

IV. The Port's Assertion That CORP Has The Ability To Negotiate Better Handling Charges Under Its Cooperative Marketing Agreement Is Wrong.

The Port contends that CORP has "overstated its financial hardship" in operating the Coos Bay Subdivision. Port Comments at 12 Specifically, the Port points out that the most recent amendment to the CMA provides for "a higher handling fee [[ ]] for the short hauls on the non-embargoed section of the Line and, conversely, a lower fee [[ ]] for the long hauls to Reedsport, North Bend, Coos Bay and Coquille." Port Comments at 13. Based upon that fact, the Port asserts that "CORP was able to negotiate a post-embargo change in the handling charge under the CMA" that inured "to its own benefit" *Id.* at 12-13. This assertion is absurd, for several reasons:

First, the amendment to the CMA to which the Port refers (the so-called "Eighth Amendment") went into effect on June 1, 2007 – nearly four months prior to the embargo. *See* Abandonment Application, Vol. II, V.S. Lundberg, Attachment 3 at 65 There was no "post-embargo" renegotiation of the Handling Carrier Charges that UP pays to CORP.

Second, the Port's suggestion that the "higher" Handling Carrier Charge [[ ]] in the Eighth Amendment applied only to "short hauls on the non-embargoed section of the Line" is incorrect. Under the Eighth Amendment, that Handling Carrier Charge applied to shipments to/from several stations that were subject to the embargo (including Mapleton, Siuslaw and Gardiner Jct.) *See* Abandonment Application V.S. Lundberg, Attachment 3 at 66.

Third, the notion that the Handling Carrier Charge structure set forth in the Eighth Amendment was in any manner a "benefit" to CORP is nonsensical. Virtually all of the traffic on the Coos Bay Subdivision—96 percent in 2006—originates or terminates at two stations, Coos Bay and Coquille. *See* Abandonment Application, Vol. I at 7; V.S. Williams, Attachment D. Under the Eighth Amendment, CORP received less revenue [[ ]] for handling longer haul shipments between Coos Bay and Coquille, on the one hand, and CORP's interchange with UP at Eugene, on the other hand, than it received [[ ]] for handling shorter movements between Eugene and stations such as Mapleton, Siuslaw and Gardiner Jct. The Port does not explain how such an illogical revenue division arrangement could possibly "benefit" CORP. In reality, those Handling Carrier Charges benefit UP (not CORP) by reserving to it a higher share on the revenue on movements to/from those station that generate the most traffic. Contrary to the Port's assertions, the Eighth Amendment to the CMA graphically demonstrates the severe economic disadvantage at which CORP was required to operate the Coos Bay Subdivision

V. Granting The Relief Requested By The Port Would Create A Strong Disincentive To Investment In Marginal Rail Lines.

The Port asks the Board to "order CORP to repair the tunnels to a serviceable condition, or compensate the Port for their repair." Port Comments at 24. Granting the Port's extraordinary

request would create a strong disincentive for potential short line investors to acquire marginal rail lines. The Coos Bay Subdivision was a cast-off of a Class I carrier (SPT) – it was a branch line with preexisting maintenance issues and a narrow operating margin that would have been abandoned years ago had it not been for CORP's decision to give the line a "second chance." Many rural communities in this country are served by short line carriers who operate light density branch lines Those lines often have deferred maintenance and/or substantial long-term rehabilitation needs, while generating only limited operating income from which to fund capital improvements Faced with such challenges, short line carriers typically perform such ordinary maintenance as may be required to continue train operations, while deferring major capital work (unless such work can be funded from external sources). In the present case, CORP went even further, funding millions of dollars in extraordinary tunnel repairs on a line that was losing money.

The Port's position that a railroad has a "common carrier obligation" to make extraordinary capital investments in its facilities - regardless of whether the investment can be justified by the traffic and revenues generated by the line - would impose an enormous financial risk on anyone considering acquiring and operating a marginal rail line. Granting the unprecedented relief requested by the Port would have the counterproductive effect of discouraging the acquisition of such lines by short line investors Richard F.Timmons, President of the American Short Line & Regional Railroad Association, shares this concern In a letter submitted to the Board in the *Show Cause Proceeding*, Mr Timmons cautions that granting the Port's request "would set a standard the only immediate consequence of which would be the abrupt and permanent end to the acquisition of all marginal rail lines by class II and class III carriers in the United States." *See* Attachment 8.

VERIFICATION

I, Paul Lundberg, declare under penalty of perjury that the foregoing is true and correct.

Further, I certify that I am qualified and authorized to file this verified statement.

Paul Lundberg

Executed on 11 September, 2008

1

DATE: February 18, 2008

TO: House Transportation Committee

FROM: Kelly Taylor
Rail Division Administrator

SUBJECT: Oregon Short Line Railroads Assessment

Introduction

This high level assessment of the Oregon short line railroads' business viability and service issues considered data including: the number of miles within each railroad's system, annual revenue, carload business volumes, the condition of the line and its components (track, bridges and tunnels) and whether the line can handle the industry standard rail cars. The attached table reflects this data for each Oregon short line railroad and a short description of the overall condition or specific issues related to the railroad's infrastructure, business or funding.

General Information

Since the 1980 Staggers Act (rail industry deregulation), the Class I railroads have abandoned, sold or leased hundreds of miles of "redundant" or marginally profitable routes to reduce overhead costs in response to changes within the industry that led to the gradual merger of most of the Class I railroads. Typically, these routes with low business density and in poor condition became today's short line railroads.

Oregon is served by two Class I railroads: the Union Pacific Railroad and the BNSF Railway Company, and 20 short line and regional railroads. Of the 2,388 miles of rail track in Oregon, short line and regional railroads operate 54 percent and the Class I railroads operate 46 percent.

Nearly half the lumber, wood and paper products shipped out of Oregon are by rail. Agriculture is also a heavy user of rail service. Moving cargo by rail is three times more fuel efficient than by truck and it reduces road congestion and wear. A railcar's capacity equals three to four trucks.

Access to rail service gives shippers a wider choice of transportation options. About 60 percent of Oregon's shippers are located on short line and regional railroad lines. These railroads handle about 194,000 rail carloads each year. They move the goods primarily intrastate, connecting to the UP and BNSF main lines in order to reach other states.

Business Viability

Since short line railroads acquired lines that were most likely in poor condition, it is imperative for the railroads to attract and sustain a certain level of business to provide the revenue needed to repair and maintain the rail infrastructure. Without adequate

revenue, it is just a matter of time before the railroad cannot provide service to its customers.

According to the 1993 I.C.C. pamphlet "*Before You Start a Small Railroad*", annual carloads per mile can be predictors of viability:

- Below 25, viability of a line is unlikely except under special circumstances such as shipper ownership, willingness of local government to subsidize the line, or a very short distance with optimal operating conditions.
- 25 to 50, the line may be successful if the railroad is not responsible for track maintenance and taxes, as for example if the track is owned by a government which assumes these responsibilities.
- 50 to 100, chance for success is good if other conditions for success are favorable.
- Over 100, success is almost assured assuming other conditions are normal.

Unfortunately, many of the short line railroads, or branch lines within a short line railroad's system, do not have a sustainable level of business to pay for both operations and maintenance. As a result, the short line railroads are depleting the residual value of their infrastructure assets.

Infrastructure Issues

Oregon's short line rail infrastructure needs critical improvements, specifically track, bridges and tunnels, to maintain operations and facilitate the projected growth in Oregon's economy.

Track - There are two main components, 1) track "classification", and 2) whether the track is heavy enough rail to support the rail industry standard car that weighs 286,000 lbs, i.e. 286k.

The FRA has established nine classes of track and safety standards that prescribe the maximum speed of operation for both freight and passenger trains. The higher classification number, the higher maximum speed allowed. Oregon's short line railroads are a mixture of excepted, Class 1 and 2 track classification:

Excepted	Freight speed is 10 mph; passenger and more than five HazMat cars operation at a time is prohibited.
Class 1	Freight speed is 10 mph; passenger speed is 15 mph
Class 2	Freight speed is 25 mph; passenger speed is 30 mph

Designating track as "excepted" is the prerogative of railroad and gives exemption from compliance with any FRA regulation except track gage (width between the rails). Many rail operators choose to maintain their track as Class 1 or declare it as "excepted", since upgrading track to Class 2 may allow operation at higher speed (25 mph), but comes with the responsibility of higher maintenance costs and more FRA regulations.

In the 1990's, the industry standard railcar increased from a GVW of 263,000 lbs. to 286,000 lbs, referred to as "286K". As rail cars increase in capacity and weight, the size of rail needed to safely carry heavier cars also must increase. The generally-accepted minimum rail section for handling 286K railcars is that weighing 110 lb per yard, however 133 lb. or heavier rail is preferable. Currently, about 80 percent of Oregon's rail miles are 110 lb. or above. Of the remaining 20 percent, the majority varies from 62 lb. rail to 90 lb. rail.

The cost to upgrade rail track to accommodate 286K rail cars is estimated at $250,000 to $300,000 per mile. Upgrading the Oregon track that cannot handle 286K rail cars today will cost between $125 million to $150 million.

Bridges - Similar to Oregon's aging highway bridge issue, the rail bridges are aging and in need of repair or replacement. There are hundreds of rail bridges in Oregon. These second and third generation bridges were built in the 1940s and 1950s. The majority were built as timber trestles, not steel or concrete. The assessment data includes only bridges that are over 100 feet in length.

Tunnels - Rail tunnels also suffer from aging issues. There are 69 railroad tunnels in Oregon, of which 34 are on the short line rail system. Except for one, all of the short line tunnels were dug between 1883 and 1916. The original builders framed the tunnel interior with massive timber "ribs," significant sections of which still serve today. Over the years, the timber decays which affects the stability of the tunnels.

As noted in a recent United States Government Accountability Office (GAO) report, there are no FRA regulations for railroad tunnels and bridges. So, unlike highway bridges, we do not have a reliable inventory or data about the bridges and tunnels to identify which are at the highest risk or the strategy to mitigate the risk. Also, except between Portland and Eugene, there are no available "detour" routes for rerouting trains if a bridge or tunnel fails. Instead, those rail lines would simply be rendered out of service, i.e. the recent Coos Bay line embargo.

Rail Funding

The railroads invest in maintenance and preservation of their lines. However, railroading is one of the most capital intensive industries. Railroad capital expenditures equal about 18 percent of their revenues, significantly higher than other industries, e.g. three percent for food manufacturing, four percent for wood products and metals, five percent for paper.

Oregon's congressional delegation has secured nearly $50 million towards various short line rail needs in Oregon, including $8.3 million for the renewal of a wooden bridge in Albany, and $11 million to repair the 1996 storm damage on the Port of Tillamook Bay railroad. Oregon legislators have also provided multiple millions of funds to short line rail infrastructure. Of the 2005 *Connect*Oregon funds, nearly $29 million was awarded to projects that benefit the short line railroads.

HIGH LEVEL ASSESSMENT OF OREGON SHORT LINE RAILROADS

RAILROAD	MILES OWNED/LEASED	2006 GROSS REVENUE	REVENUE PER MILE	2006 CARLOADS	CARLOADS PER MILE *	TUNNELS	BRIDGES > 100 FEET	FRA TRACK CLASS	MILES of RAIL < 110-LB.	HANDLING 286K RAILCARS	COMMENTS
Albany & Eastern	65 69	$2,500,078	$38,059	7,001	107	0	16	Excepted	30 03	Yes	Annual carloads per mile are in sustainable range but there was limited capital reinvestment by first short line owner who downgraded entire operation to Excepted track status Line has significant sections of light rail Has received $408,000 in state grants since 2000 and benefited from a project that received $1 9 million ConnectOregon I funds Company acquired by Rick Franklin Corp in 2007 Has applied for $13.2 million from ConnectOregon II $7 8 million for the Mill City Branch, $3 3 million for the Santiam Branch, and as co-applicant with the City of Lebanon for $2 2 million for spur upgrade and bridge replacement on the Santiam Branch.
Mill City Branch (Albany-Mill City)	48 28					0	13	Excepted	13.30	Yes	Traffic volumes on the Lebanon-Lyons-Mill City portion of this line are believed to be less than what is required for long-term sustainability There are three customers, two of which (Freres Plywood and Shanika Forest Products) are active The third, Frank Lumber, has a spur at the end of the branch but is not using rail. Rail sections are adequate except for the first 7.5 miles out of Lebanon where 100-year-old 75-pound rail exists, and for a 6.5-mile stretch of isolated curving railroad high above the Santiam River with 80+-year-old 90-pound rail. Several thousand ties are needed, especially in the areas with the smaller rail. Although the line accepts 286K shipments there may be as many as five timber trestles with 3-stringer chords, running 286K over these structures is pressing their luck. Two century-old 100-foot-long steel spans over Crabtree Creek are in poor condition and need to be replaced New owner has submitted Connect Oregon II requests for both track and bridge work. Since 11/30/04 active shippers have voluntarily paid a $100 per car surcharge to help fund the replacement.
Santiam Branch (Lebanon-Sweet Home)	17 43					0	3	Excepted	16 73	Yes	Most of the carloads from this line segment are generated by Weyerhaeuser at Sauman, some six miles from Lebanon While at one time there was significant manufacturing between Sauman and Foster (11 miles), there is little activity today Absent new business potential abandonment may be proposed For this line's entire 17 4 miles 85-pound rail installed in the 1030s when the line was built predominates, the last two miles to Foster were laid in 1943 and 1947 as a line extension.
Central Oregon & Pacific	363 77	$27,563,027	$71,622	45,017	117	20	100	Excepted, 1 and 2	51 72	Yes	On a "system" basis CORP's carloads per mile appear to be sufficient for sustainability The line is challenged with 3+% grades, 20 tunnels and thousands of feet of bridges, which is outside of the "normal" rail carrier scenario used in the ICC viability predictor for operating and maintenance costs Has received $700,000 in state grants since 2001 for the Coos Bay line and was awarded $7 7 million from ConnectOregon I to build a rail yard in Winchester The Coos Bay line has also benefited from about $20 million in federal and state funds, e.g. Coos Bay bridge repairs and North Spit rail spur Although CORP did not apply for ConnectOregon II funds, the Port of Coos Bay has applied for $6 5 million to purchase the Coos Bay line and repair some of tunnels RailAmerica, the parent company of CORP, planned to borrow about $40 million of federal funds to upgrade its system, but the plan was abandoned due to purchase of RailAmerica by Fortress Investments
Siskiyou Line (Eugene-OR/CA Border)	240 84			39,172	159	11	37	1 and 2	49 37	Yes	*2006 traffic volumes appear sufficient to sustain operations and ordinary maintenance but the ability of the* property to generate enough reinvestment capital needed to upgrade 49 miles less than 110-pound rail, plus do long-term tunnel and bridge renewal is questionable If CORP implements its recent proposal to discontinue operations south of Belleview (Ashland), that will reduce by 23 miles trackage in Oregon requiring maintenance as well as 3 tunnels and 3 bridges longer than 100 feet. However, some carloads and revenue attributable to intraline local traffic likely will be lost as well From a long-term marketing standpoint, severing the southern connection to California is unwise
Coos Bay Branch (Eugene-Coquille)	137 06			5,845	43	9	63	Excepted, 1 and 2	2 35	Yes	Effective 9/21/07, this line was embargoed west of Noti due to safety issues with Tunnels 13, 15 and 16 With nine tunnels and 63 bridges longer than 100 feet, this curvaceous line though coastal mountains known for abundant rainfall is costly to maintain and will require heavy capital investment for aging tunnels and bridges in the near-term To reopen the line, CORP recently proposed $23 million in collective capital investment from various sources for immediate repairs and an additional $16 million in operational and maintenance subsidy from ODOT over the next five years. Current carload volumes are too low to provide the line of being a self-sufficient for-profit entity at this point in time.
White City Branch (Tolo-White City)	5 87			2,459	419	0	0	2	0 00	Yes	This branch, which connects with the WCTU Railway at White City, is laid with heavy rail with a reasonably good tie condition and has plenty of business volume to sustain operation

RAILROAD	MILES OWNED/LEASED	2006 GROSS REVENUE	REVENUE PER MILE	2006 CARLOADS	CARLOADS PER MILE *	TUNNELS	BRIDGES > 100 FEET	FRA TRACK CLASS	MILES of RAIL < 119-LB.	HANDLING 286K RAILCARS	
City of Prineville	18 35	$342,771	$18,680	623	34	0	1	1 and 2	1 10	Yes	COP is making a comeback from its all-time low of 68 carloads in 2004 Marketing strategies revolve around the Prineville Depot concept of a transloading center near Prineville In the 1980s, received about $2 million of federal funds for various improvements Received $2 million ConnectOregon grant for Phase 1 of multi-modal freight translocd center Has applied for $3 5 million from ConnectOregon II to continue the development of the translocd center
Hampton Railway	5 20	$0	$0	0	0	0	0	Excepted	5 20	?	HLBC is a subsidiary of Hampton Lumber Co In 2007 rail shipments resumed from Fort Hill when the former sawmill was leased to another entity. Service on the line is provided by Willamette & Pacific RR. Has received $326,000 in federal funds
Idaho Northern & Pacific	20.30	$1 721,589	$84,808	4,186	208	0	3	1	0 80	No	While the track is generally good enough to meet FRA Class 2 specifications, IN&P operates at the lower 10 MPH speed of FRA Class 1 track to avoid derailments This line has ample volume for self-sustainment.
Klamath Northern	11 00	$784,148	$69,468	2,414	219	0	1	Excepted	11 00	Yes	KNOR's entire line is laid with small rail, yet it handles 286K cars as an accommodation to its owner and only shipper, Interior Pacific Inc In 2006 KNOR ranked 4th among Oregon's 21 shortlines in carloads per mile Has applied for $720,000 from ConnectOregon II to upgrade trackage at Gilchrist to handle 286K rail cars.
Longview Portland & Northern	3 39	$0	$0	0	0	0	1	Excepted	?	N/A	Dormant.
Modoc Northern OR & CA)	181 80	$559,902	$3,465	985	6	0	4	Excepted, 1 and 2	54.45	Yes/No	For 2006, MNRR tied with Wallowa Union for the worst carloads per mile average among Oregon shortlines. 2006 carload and revenue figures include Lake County Railroad, which was leased by MNRR effective April 1, 2007. The OR line segments are dependent upon the CA line segments and vice versa, so the 181.8-mile operation must be considered systemic. From a revenue perspective, MNRR has a serious survival problem that requires more volume. Between 1998 and 2002, Lake County Railroad received $2 5 million in federal funds. Has applied for $798,000 from ConnectOregon II $150,000 for signal work in Klamath Falls and $648,000 for Lakeview Branch improvements
Lakeview-OR/CA Border Lakeview Line in OR	14 65					0	7	Excepted	14.65	No	Almost all miles in OR are laid with 75-pound rail with marginal tie condition. All shippers on this 55-mile Alturas-Lakeview line are located in Lakeview. Bridge inventory is lacking.
OR/CA Border-Alturas Lakeview Line in CA	39.80					0	7	Excepted	39 80	No	In CA, 75-pound rail accounts for 5 track miles and there is approximately 1 mile (divided between 2 locations) of 60-pound rail. Balance of the line is 90-pound, which would be marginally adequate for 286K provided it had a good tie condition However, ties in CA are in relatively poor condition and MNRR has unloaded rip rap to correct roadbed embankment erosion along the Pit River north of Alturas
Alturas-CA/OR Border Modoc Line	88 63					0	2	2	0 00	Yes	At this point in history MNRR has the good future of leasing the Modoc Line with considerable residual life left in the track structure. All rail is use is 112-pound or heavier and its condition supports FRA Class 2 specs. Limited traffic and a high desert climate are helping to prolong its life. In the 100 miles between Alturas and Klamath Falls there are only four bridges longer than 100 feet. This line of railroad originally was built circa 1929
CA/OR Border-Terum Modoc Line	18 62					0	2	2	0 00	Yes	Same as branch line listed above.
Mount Hood	21 13	$1,832,337	$86,717	410	19	0	1	1 and 2	20.93	Yes	MHRR's principal revenue comes from tourist excursions but it is noteworthy that its freight traffic increased 83% in 2006 over 2005, and jumped 180% in 2007 versus 2004 The revenue data includes both passenger and freight business, but carload data is for freight only. In late 2006, the line was washed out between Dee and Parkdale (about six miles) from a winter storm Has submitted a ConnectOregon II application for $700,000 to repair the line. Has received $350,000 in state grants since 2001 Was been sold to Permian Basin Railways, a subsidiary of Iowa Pacific Holdings, effective 12/31/07
Oregon Pacific	12 68	$547,168	$43,154			0	3	Excepted, 1	12 50	Yes	OPR has two separate and disconnected operations The majority of track in poor condition However, with $43,154 average revenue per mile, it appears the line has enough business to be self-sufficient. The operator refuses to provide the required carload data for 2005 and 2006 In 2004, the average carload per mile was 139
East Portland Traction Line	5 00					0	0	1	4.86	Yes	This line is a remnant of the former Portland Traction Co and operates from East Portland to an industrial park in Milwaukie.
Molalla Branch	7 68					0	3	Excepted	7 60	Yes	Former Southern Pacific Molalla Branch, the line now ends just east of Liberal Overall poor condition New growth in the Canby area may cause a steel fabricator to be located on the line as a new customer
Palouse River & Coulee City (OR & WA)	36 60	$756,005	$23,924	26,606	720	0	4	Excepted	20.10	No/Yes	PCC has two separate and disconnected operations in OR and its branch to Weston, OR line involves trackage in WA. The high carloads per mile average is due to the termination of Union Pacific unit trains on the Arlington-Gilliam line Has received $446,830 in state grants since 2001

RAILROAD	MILES OWNED/LEASED	2006 GROSS REVENUE	REVENUE PER MILE	2006 CARLOADS	CARLOADS PER MILE *	TUNNELS	BRIDGES > 100 FEET	FRA TRACK CLASS	MILES of RAIL < 110-LB	HANDLING 286K RAILCARS	
WA/OR State Line - Weston	20 10			754	30	0	4	Excepted	20 10	No	Branch consists of 75- and 80-pound rail and marginal tie condition Volume and revenue insufficient for long-term survival The operator recently elected to forego a ConnectOregon I grant due to concerns about language in the grant agreement relating to operating the line for a set period post project. 2006 traffic included 256 refrigerator cars loaded by Smith Frozen Foods at Weston and 498 carloads of grain as local traffic between Walula, WA and Spofford, OR. Absent more volume and/or revenue the line is a likely abandonment candidate in the next couple of years
Walla Walla WA/OR State Line	5 20			Included	Above	0	0	Excepted	5 20	No	See above
Condon Branch Arlington-Gilliam	11 50			25,751	2,239	0		2	0 00	Yes	This line is a vestige of the old Arlington Condon Branch that now ends at Gilliam, site of the Arlington landfill. PCC operates the line on lease from Union Pacific and terminates unit container trains of trash from Seattle This traffic accounts for the impressive carloads per mile average, the best of all OR short lines
Peninsula Terminal Co	1 91	$838,281	$438,891	1,660	885	0	0	1	7	Yes	PT Co. is a switching carrier dating back to 1913, originally formed to serve Portland's stock yards In 2001, received $118,508 in state grants for rehabilitation work
Portland Terminal	2 41	$135,570	$56,253			0	0	Excepted, 1	0.00	Yes	Owned by Union Pacific and BNSF Railway; operates Lake Yard in Portland
Port of Tillamook Bay	63 80	$2,200,722	$26,262	3,847	48	10	33	Excepted, 1	6 00	No	Current carload volumes are too low to provide self-sustainment at this point in time The line is challenged with 3+% grades, 10 tunnels and multiple bridges, which is outside of the "normal" rail carrier scenario used in the IOC viability predictor for operating and maintenance costs In addition to pending repairs from the recent storm, this curveceous line though coastal mountains known for abundant rainfall is costly to maintain and will require heavy capital investment for aging tunnels and bridges in the near-term. Suffered $12 million in storm damage in 1996. Embargoed 12/3/07 west of Burton due to recent horrendous storm damage The preliminary repair estimates of $28 million minimum do not include environmental and bridge requirements. Alternative solutions to providing transportation service to the businesses served by the line are being studied. Since 1997, has received more than $6 million in state grants and loans, and nearly $14 million in federal funds Has applied for $4 million from ConnectOregon II for repairs to several bridges and one tunnel.
Portland & Western	285 79	$16,460,268	$64,594	56,275	197	3	94	Excepted, 1 and 2	93.44	Yes	As a whole, PNWR has sufficient carloads and revenue but some individual line segments are believed to be revenue deficient. Since 1998, has received $2 7 in federal funds and $6 million in state grants, as well as benefiting from a spur project that received $320,000 in state funds. Has applied for 13.2 million from ConnectOregon II: 8.3 million for the Astoria line and $6 9 million for the Albany rail corridor
Newberg-Cook West Side (Newberg) Dist.	14.32					0	9	Excepted	6 23	Yes	90-pound rail on this line was laid in 1914 when it was electrified for interurban passenger operation PNWR has discontinued through traffic over Rex Hill except for occasional movements Local service is provided as needed between Cook (junction with Tillamook line) and Sherwood Line needs a substantial tie program and upgrade of 90-pound rail. Carloads per mile likely less than 50 per year
Hillsboro-Simson Seghers District	12 54					0	6	2	0 00	Yes	In 2001, received $210,600 in state grants for rehabilitation work on this line In 2007 upgraded from 100 year-old 75-pound rail to 113-pound continuous welded rail with a $2 5 million ConnectOregon I grant. Principal customer is Simson Timber Co CLs and revenue not known but annual carloads believed to be between 3,000 and 4,000
Willsburg Jct MP 774 Tillamook District	32 94					0	8	2	4 70	Yes	This line is the connection between UP's Brooklyn yard in Portland and the Hillsboro-Banks area It crosses the Willamette River between Lake Oswego and Milwaukie Five and 48 miles were between Tigard and Beaverton were purchased in 2006 by Washington County to become part of the Washington County Commuter Rail operation Carries considerable overhead traffic and is an important link in the west valley rail system. Has sufficient volumes to insure adequate upkeep and operation
FG Jct -Forest Grove Forest Grove Dist	5.83					0	1	Excepted	5 83	No	Very light (72-pound) rail and anemic carloadings. Absent industrial development wanting rail at either Cornelius or Forest Grove, line is in danger of abandonment. However, right of way is owned by state and the route would lend itself well to a Forest Grove extension of Westside Max
Gretion-Eugene Oregon Electric District	110.20					0	41	2	0.00	Yes	Back bone of PNWR's rail system in the Willamette Valley Upper end (north of Wilsonville) being upgraded for Washington County Commuter Rail Line has adequate use and revenue to insure survival Worst problems with track quality are between Salem and Albany where problematic old rail needs to be replaced. Of the state grants received, $2 9 million of ConnectOregon I funds constructed a rail yard in Tigard. Has applied for $6.9 million from ConnectOregon II towards multiple improvements on the Albany rail corridor.
Albany, MP 0 0-MP 0 89 Santiam Branch	0 89					0	0	1	0 89	Yes	Important connection between PNWR's Albany yard and its Millersburg Yard.

RAILROAD	MILES OWNED/LEASED	2006 GROSS REVENUE	REVENUE PER MILE	2006 CARLOADS	CARLOADS PER MILE *	TUNNELS	BRIDGES > 100 FEET	FRA TRACK CLASS	MILES of RAIL < 110-LB	HANDLING 286K RAILCARS	
United Jct - Banks United Railways District	17 50					2	10	Excepted, 1 and 2	10 99	Yes	Important link between the low density rail system in the Willamette Valley and the Astoria line In 2006, some 10,000 carloads of logs alone moved over this track plus hundreds of other cars Between Bowers Jct. and Banks line suffers from poor tie condition and 90-pound rail, resulting in 10 MPH operation East of Bowers Jct. over Cornelius Pass is a long tunnel and several large bridges, including the longest timber trestle in OR These bridges will require much capital in the years ahead as they age.
MP 5 2-Tongue Point Astoria District	91 77					1	19	2	65 00	Yes	The expected start up of an ethanol plant at Port Westward (MP 58) in 2008 will stabilize this line traffic and revenue-wise to Clatskanie A plan to upgrade about 35 miles of 90-pound rail to heavier welded rail to accommodate the unit corn trains headed to Port Westward is being implemented West of Clatskanie is the Georgia-Pacific Wauna paper mill, but for the remaining 26 miles towards Astoria there is no business Any "unit train" type business developed west of Port Westward will require upgrading the 90-pound rail to heavier size for safe handling of 286K traffic Absent any business beyond Wauna, continued presence of the railroad is in jeopardy Underlying right of way belongs to the state There are three hand-cranked drawbridges on this line dating from circa 1898 that may need to be electrified to provide efficiencies for any significant additional business. Of the state grants received, $413,600 was for this line Has applied for $8 3 million from ConnectOregon II towards the "35 miles of 90-pound rail" upgrade needed for Port Westward
Wallowa Union	63 30	$142,444	$2,250	368	6	0	4	Excepted, f		No	This railroad has serious revenue deprivation. The bulk of 2007 revenue will be from tourist operation The RR is living off the residual value of its inherited assets but eventually capital monies will be needed for tie renewal and, eventually, some rail replacement and bridge work Since 2001, has received more than $6.5 million in state grants and loans. In 2005, received $3 million in federal assistance to reduce state loan debt.
WCTU Railway	12 20	$546,717	$44,813	2,488	202	0	0	Excepted		Yes	Revenue adequate for foreseeable future
Willamette & Pacific	184 02	$17,547,917	$95,359	40,806	221	1	70	Excepted, 1 and 2	58.16	Yes	Overall, WPRR's revenue per mile and carloads per mile are the best of the larger short lines However, individual line segments have problems Since 2000, has received $2 65 million in state grants and $9 million in federal funds.
Newberg-Corvallis West Side District	55 56					0	18	Excepted, 2	17 69	Yes	Revenue adequate as the connecting link between west valley communities such as Newberg, McMinnville, Wilsonville, Dallas, and mainline railroad at Albany Portion from St Joseph to Newberg *includes 90 pound rail laid in 1914 This section needs both tie and rail upgrades to heavier material*
Corvallis-Monroe Hull-Oakes Lead	22 87			630	27	0	0	Excepted	22.87	No	Embargoed June 2007 due to vastly deteriorated condition Future in doubt. Shippers and county are exploring ways to acquire and preserve the line 75-pound rail could continue to be useful at slow speeds with a massive tie renewal but upgrading the line to 286K calls for replacing rail with heavier steel Of the state grants received, $350,000 was for this line
Albany-Toledo Toledo District	74 40					1	49	2	0.00	Yes	Rail and tie condition good as Georgia-Pacific paper mill at Toledo ships significant tonnage over the line Railroad crosses Marys River 19 times and Yaquina River 15 times as it meanders through Coast Range Most steel bridges include second hand components and some of these are nearing the century mark Bridge renewal on this route will require a lot of capital as structures reach the end of their life cycles
Whiteson-Willamina Willamina District	19 14					0	3	2	10.28	Yes	Upgraded from old 80-pound rail to 106-pound and 113-pound continuous welded rail with $2 5 million of the state grants received Line in good shape for secondary feeder route and has adequate revenue to sustain operation and maintenance for foreseeable future.
Gerlinger-Dallas Dallas District	5 20					0	0	Excepted	5 12	Yes	Line condition has spiraled downward as traffic declined Only shipper left at Dallas is Weyerhaeuser Aggressive tie program would improve this line significantly. Replacing 90-pound rail probably not economically justifiable unless significant new business were to locate on this branch
Willamette Valley	33 41	$719,888	$21,547	2,034	61	0	6	Excepted, 1	30.49	Yes	WVR's owner advises he is having his "worst year ever" in 2007 due to decline in forest products traffic, principally Weyerhaeuser at Stayton In 1998, received $300,000 in federal funds Since 2001, has received $2 88 million in state grants for rehabilitation work and to upgrade some track to handle 286K rail cars Has applied for $1 million from ConnectOregon II to continue the improvements begun with ConnectOregon I
Woodburn-Stayton Line	31 43					0	6	1 and 2	28.61	Yes/No	*Line is benefiting from a $2.3 million ConnectOregon I grant to improve overall condition for handling* 286K full length of route.
Gear-63rd Ave , Salem Gear Line	1.98					0	1	Excepted	1 98	No	Not in service
Wyoming Colorado	23 00	$341,585	$14,851	1,190	52	0	2	Excepted	23 00	No	Carloads per mile are borderline for survival and sufficient capital to replace lighter rail sections with heavier steel is not being generated Unless this line can be upgraded to handle 286K cars eventually the retirement of 263K equipment will slowly erode WYCO's traffic base and the line will be lost.

* **CARLOADS PER MILE NOTE.** According to the 1993 I C C pamphlet Before You Start a Small Railroad, annual carloads per mile can be predictors of viability thusly (1) Below 25, viability of a line is unlikely except under special circumstances such as shipper ownership, willingness of local government to subsidize the line, or a very short distance with optimal operating conditions. (2) 25 to 50, the line may be successful if the railroad is not responsible for track maintenance and taxes, as for example if the track is owned by a government which assumes these responsibilities (3) 50 to 100, chance for success is good if other conditions for success are favorable (4) Over 100, success is almost assured assuming other conditions are normal.

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Central Oregon & Pacific Railroad, Inc.

ConnectOregon Application for

Track Improvements Project

Attachment 3

Central Oregon & Pacific Railroad (CORP) *Connect*Oregon Application

CORP Track Improvements

Table of Contents

Application for *Connect*Oregon Program 2005-2006

Central Oregon & Pacific Railroad (CORP)

*Connect*Oregon Application

Application For *Connect*Oregon Program 2005-2006

Submit by Email

To ensure you have current program information, e-mail connectoregon@odot.state.or.us to get on the electronic mailing list.

PART A- Project Summary and Certification:

Use this form or a replica Print and sign one original. Attach additional text at the end as necessary identified with the corresponding question number.

1. APPLICANT

ORGANIZATION NAME	PRIMARY CONTACT PERSON AND TITLE
Central Oregon & Pacific Railroad, Inc	Steve Hefley
ADDRESS	TELEPHONE
333 S.E. Mosher	(541) 957-2512
CITY, STATE AND ZIP CODE	FAX
Roseburg, OR 97470	(541) 957-0686

2. CO-APPLICANT

ORGANIZATION NAME	PRIMARY CONTACT PERSON AND TITLE
ADDRESS	TELEPHONE
CITY, STATE AND ZIP CODE	FAX

3. PROJECT NAME AND LOCATION

Central Oregon & Pacific Railroad main line track improvements; Siskiyou, Roseburg, & Coos Bay Subdivisions.

4. SUMMARY OF PROJECT

Upgrade of the Central Oregon & Pacific Railroad main lines. This includes a request of grant money within Region 2 (in the amount of $1,477,492) and Region 3 (in the amount of $5,876,270) Detailed information regarding projects to be completed in each Region is contained in Attachment C: which is made part of this Application Also see page 3

5. COST SUMMARY*

a) *Connect*Oregon Grant Amount	$7,353,762 00
b) *Connect*Oregon Loan Amount	
c) Subtotal *Connect*Oregon Funds	$7,353,762.00
d) Match Amount	$5,025,812.00
e) Other Fund Amount	
f) Project Total	12,379,574

***Leave these Cost Summary entries blank - they will fill in automatically when Part C.4 of application is completed.**

6. CERTIFICATION

I certify that Central Oregon & Pacific Railroad, Inc (applicant organization) supports the proposed project, has the legal authority to pledge matching funds, and has the legal authority to apply for *Connect*Oregon funds I further certify that matching funds are available or will be available for the proposed project. I understand that all State rules for contracting, auditing, underwriting (where applicable) and payment will apply to this project

Steven Hefley — 3-7-06 — Steven Hefley

APPLICANT SIGNATURE — DATE — PRINTED NAME

CO APPLICANT SIGNATURE — DATE — PRINTED NAME

*Connect*Oregon Program

Application

PART B - Applicant Qualifications

1. CONTACT INFORMATION

APPLICANT

ORGANIZATION NAME	PRIMARY CONTACT PERSON AND TITLE
Central Oregon & Pacific Railroad, Inc.	Steve Hefley
ADDRESS	TELEPHONE
333 S.E. Mosher	(541) 957-2512
CITY, STATE AND ZIP CODE	FAX
Roseburg, OR 97470	(541) 957-0686

CO-APPLICANT/CO SPONSOR

ORGANIZATION NAME	PRIMARY CONTACT PERSON AND TITLE
ADDRESS	TELEPHONE
CITY, STATE AND ZIP CODE	FAX

2. IS/ARE THE APPLICANT(S) CURRENT ON ALL STATE AND LOCAL TAXES, FEES AND ASSESSMENTS?

☒ YES ☐ NO If NO Explain:

PART C - Project Description

3. PROJECT DESCRIPTION AND PURPOSE: Summarize the project's description and purpose Provide maps in 8 1/2 "X 11" format as hard copy only

This project provides a less expensive transportation alternative for the Oregon forest products industry, while reducing the growth of heavy truck trips on Oregon roads and highways Preserving and rehabilitating the Central Oregon & Pacific Railroad (CORP) main lines, and making them more efficient, will provide better track which can operate at higher speeds This will result in an increase in overall capacity for the CORP railroad system, with the associated lower costs for shippers, and the ability to avoid diversion of lumber traffic to truck

CORP has entered into a two (2) year compliance agreement with the FRA to address the overall condition of CORP's tracks. CORP and RailAmerica are committed to working with the various regulatory agencies, including FRA and ODOT, to ensure that CORP may continue to provide safe and efficient rail transportation services to the public .

The quantifiable benefits of this project are derived from determining the increased efficiencies that these track improvements will bring to the railroad. These track improvements will upgrade the overall condition of the track which will allow for higher train speeds while reducing slow orders By increasing speeds and eliminating slow orders, trains move more quickly, and service is accomplished in a more timely fashion Presently, cars spend on the average 5 87 days between inbound and outbound interchanges. These improvements will reduce that time by up to one day This one day reductions is equivalent to a 17 % increase in the entire system capacity from 55,000 carloads per year to 64,000 per year.

Increasing the rail carload capacity provides Oregon forest products shippers a less expensive lower cost transportation option, while avoiding additional truck trips. This has advantage of lowering emissions, reducing highway congestion, and decreasing fuel consumption.

(continued on Addendum Page 8)

4. *Connect*Oregon (CO) Project Budget

SOURCES OF FUNDS: Please identify the source and amount of moneys comprising your project budget in terms of grants, loans, match and other funds

SOURCES:	AMOUNT	PERCENT OF TOTAL	DATE AVAILABLE CAL YEAR	DATE AVAILABLE QUARTER
a. *Connect*Oregon Grant	$7,353,762 00	59.4 %	2007	1st
b. *Connect*Oregon Loan		00 0 %		
c Required Match (Grants - 20% of Total Project) 1	$5,025,812 00	40 6 %	2006	1st
d. Other Leveraged Funds (2)		00 0 %		
e Other Leveraged Funds (2)		00 0 %		
f. Other Non-Leveraged Funds (Describe)		00 0 %		
g Other Non-Leveraged Funds (Describe)		00.0 %		
TOTAL*	12,379,574	100 %		

(1) Please describe the source and timing of the 20% match shown above If applicable include the cost basis of property

The 40 6% match will be provided by Central Oregon & Pacific capital expenditures on track upgrades in the amounts of $1,009,768 within Region 2 and $4,016,044 within Region 3 (total of $5,025,812) in FY 2006

(2) If your project leverages other funds beyond the *Connect*Oregon grants, loans and match required for your project, please describe the source, timing and basis for valuing the other funds Leveraged funds must be shown in 1(d) and 1 (e) above

USES OF FUNDS: Please identify the proposed uses and amount of moneys comprising the project budget.

USES:	AMOUNT	PERCENT OF TOTAL	DATE AVAILABLE CAL YEAR	DATE AVAILABLE QUARTER
Labor (Payroll)	$977,986 00	07.9 %		
Contracted Services (If Known)	$4,419,508 00	35 7 %		
Materials and Supplies	$6,982,080.00	56.4 %		
Capital Outlay (Land)		00 0 %		
Capital Outlay (Buildings)		00 0 %		
Capital Outlay (Equipment)		00 0 %		
Other (Describe)_____		00.0 %		
Other (Describe)_____		00 0 %		
Other (Describe)_____		00 0 %		
Other (Describe)_____		00 0 %		
TOTAL*	12,379,574	100 %		

Totals for Sources of Funds and Uses of Funds must be equal.

5. REAL ESTATE

EXACT ADDRESS OR LEGAL DESCRIPTION

			PURCHASE PRICE	DATE
a IS PROPERTY OWNED BY APPLICANT(S)?	☒ YES	☐ NO		
b IS PROPERTY TO BE PURCHASED?	☐ YES	☒ NO	PURCHASE PRICE	DATE
c IS PROPERTY TO BE LEASED?	☐ YES	☒ NO		
d DOES THE PROJECT INCLUDE EASEMENTS OR DONATED PROPERTY?	☐ YES	☒ NO		

Provide any additional details here:

Track improvements will be on existing railroad right of way

PART D - Project Considerations

NOTE: The independent review consultant who will evaluate the project may consider other published or publicly available information when conducting this review

6. TRANSPORTATION COST REDUCTION: Describe how the project reduces transportation costs for Oregon businesses

This project will reduce transportation costs for Oregon forest products industries by providing and maintaining a less expensive transportation alternative. Lower rail rates vs truck will result in a savings of up to $17,000,000 per year

This investment will make these Oregon industries more competitive against other forest products businesses throughout the United States.

The existing track condition and track speeds CORP can only hamper future intermodal connectivity as the demand for railcars grows. If the line cannot support an influx of additional rail cars to service increased future demand, the number of opportunities to increase industry output by shipping via rail is diminished

7. MODAL CONNECTIVITY: Describe how the project benefits or connects two or more modes of transportation.

This project will provide an alternative to truck transportation for Oregon businesses by making the CORP more efficient, and capable of handling more carloads of traffic

The avoided truck trips will result in reduced highway congestion from truck in the Roseburg area The avoidance of up to 63,000 annual truck trips will result in avoiding an increase in the truck Average Annual Daily Traffic (AADT) of up to 4%

The applicant proposes to quantify the improved connectivity by showing the increase in forest products carloads

8. STATEWIDE OR REGIONAL TRANSPORTATION LINK: Describe how the project creates a critical link in a statewide or regional transportation system

This project will connect Oregon businesses to the national rail system, making them more competitive. Using rail reduces congestion on the highway system while lowering transportation costs for the businesses. The reduced congestion will be Statewide by avoiding up to 63,000 additional annual truck trips on I-5 by increasing rail carloads up to 9,000 per year.

The applicant proposes to quantify the improvements in terms of additional carloads of forest products carried and job creation

9. COST BORNE BY APPLICANT(S): Provide the amount by which the project will exceed,or. provide a match beyond *Connect*Oregon's minimum grant-match requirement of 20%.

The 40.6% match will be provided by Central Oregon & Pacific capital expenditures on track upgrades in the amount of $5,025,812 in FY 2006

The full project is beyond the ability of the applicant to finance with outside sources due to the low rate of return

10. PERMANENT AND CONSTRUCTION JOBS CREATION/RETENTION: Describe how the project creates and retains permanent and construction jobs in Oregon

Job estimates are derived from a previous study conducted on the impact of a CORP Winchester Rail Yard construction project, base on a percentage of the carload growth of that project

Construction Jobs· These will be primarily limited to a track construction firm, and are assumed to be out of State This would total about 26 jobs, and these would be for the duration of the project, or about 12 months.

Other Direct Jobs, Not Including Construction· This project will provide infrastructure that could result in the creation of an average of up to 571 railroad and forest products industry jobs per year in the Southwest Oregon Region.

As a result of this project improvement, railroad employment is could to grow from 121 jobs to 137 jobs This employment increase is directly related to the expanded capacity provided by the project and will not take place without the improvements. The average annual wage of new CORP rail jobs is estimated to be $55,000 based on 2005 year end data and forecasted 2006 trends.

(continued Addendum Page 9)

11. ANTICIPATED CONSTRUCTION START DATE OR EQUIVALENT: 1 January 2006

12. ANTICIPATED PROJECT COMPLETION DATE: 31 December 2007

13. CONSTRUCTION READINESS: Provide a project timeline and describe where the project is on this timeline in relation to planning, design and permitting issues.

The project requires no rezoning, land use permits, or environmental approvals

14. PROJECT OPERATIONS: How will the ongoing maintenance, operation and replacement of the project be financed?

The maintenance operation and replacement of the project will be financed by the Central Oregon & Pacific Railroad capital expenditure program. Those funds will be provided by the additional revenue received as a result of this project

15. OTHER CONSIDERATIONS AND INFORMATION : Describe any other considerations and information you would like taken into account about the project.

The project uses the efficiencies of rail to reduce emissions and fuel consumption vs truck. This will result in avoiding additional emissions, and savings of 1 million gallons per year in diesel fuel consumption

PART E - Supporting Materials: Provide a list here of supporting materials that will be provided as part of your hard copy submission.

The following additional materials are provided in the hard copy application:

Attachment A CORP Track Improvement Public Benefit Brief
Attachment B Economic & Social Benefit of Diverting Truck Traffic with CORP Yard Improvements
Attachment C CORP Track Project List Spreadsheets
Attachment D CORP Track Improvement Public Benefit Spreadsheets

ADDENDUM PAGE 8: Attach additional text here as necessary, identifying the corresponding application question number you are completing.

PART C - 3. PURPOSE

Aside from reducing rail traffic congestion and shipping costs, the project will also foster benefits for the community of Roseburg Faster trains spend less time blocking grade crossings This has the impact of reducing traffic congestion in central Roseburg, improving emergency vehicle response times, improving air quality, and reducing fuel consumption in the community.

The CORP is comprised of approximately 439 miles of mainline. These improvements would consist of providing heavier rail, replacing ties, replacing turnouts, bridge and tunnel improvements, surfacing and smoothing the roadbed, and providing for signal improvements. The major components of this upgrade program are as follows

- Relay 79,060 LF of curve worn rail on various curves on the Roseburg, Siskiyou, and Coos Bay Subdivisions
- Relay 141,122 LF of 90# jointed rail with 112# or larger Continuous Welded Rail on the Roseburg Sub.
- Replace 85,358 defective cross ties
- Surface 111 miles of track
- Renew Old Hwy 99 crossing at MP 557 3
- Replace 249 switch ties at various locations
- Replace 5 turnouts at Dillard Yard
- Make repairs on various bridges based on the annual bridge inspection
- Eliminate remaining pole line and replace with electracode
- Grind 83 84 Pass miles between MP 403.16 - 487
- Repair tunnel lining in tunnels 13, 15, and 20 on the Coos Bay Subdivision
- Eliminate 350 joints in welded rail

The CORP will complete the following projects in FY 2006 as the match for the funds.

- Relay 79,060 LF of curve worn rail on various curves on the Roseburg, Siskiyou, and Coos Bay Subdivisions.
- Relay 62,0632 LF of 90# jointed rail with 136# Continuous Welded Rail on the Roseburg Sub
- Replace 35,358 defective cross ties
- Surface 80 miles of track
- Renew Old Hwy 99 crossing at MP 557 3
- Replace 249 switch ties at various locations
- Replace 5 turnouts at Dillard Yard
- Make repairs on various bridges based on the annual bridge inspection
- Eliminate pole line and replace with electracode

The following are the projects proposed for the ConnectOregon grant funds in order of priority

- Replace 50,000 defective cross ties
- Surface 31 miles of track
- Repair tunnel lining in tunnels 13, 15, and 20 on the Coos Bay Subdivision
- Relay 79,000 LF of 90# jointed rail with 112# or larger Continuous Welded Rail on the Roseburg Sub
- Make repairs on various bridges based on the annual bridge inspection
- Eliminate remaining active pole line and replace with electracode
- Grind 83 84 Pass miles between MP 403 16 - 487
- Eliminate 350 joints in welded rail

Completing any or all of the above improvements using ConnectOregon would contribute to the higher trains speeds desired and provide some of the benefits previously described

ADDENDUM PAGE 9: Attach additional text here as necessary, identifying the corresponding application question number you are completing.

PART D - 10. PERMANENT AND CONSTRUCTION JOBS CREATION/RETENTION

Our analysis indicates that with added rail capacity, employment in the forest products industry could expand by 550 jobs over the 20 year period following completion of the proposed project Forest products jobs created are estimated at $42,408 per year based on computer modeling estimates. These wages are above the State average and all direct jobs are expected to be family wage jobs

We believe that the Medford-White City areas and the North Spit area of the Port of Coos Bay present the greatest potential for attracting new industries and family wage jobs to the CORP Since 2002, the following new industries have located on CORP.

Company	Jobs	Year
Louisiana-Pacific (Panel Products), Rogue River	40	2002
Westwood, Reedsport	30	2004
McGovern Metals, Roseburg	6	2004
HFP Transloading, Grants Pass	4	2004
American Bridge, Reedsport	120	2004
Goshen Reload, Goshen	4	2005
Southport Lumber, North Bend	70	2005
South Coast Lumber, Merlin	2	2005
Amy's Kitchen, Central Point	200	2006
Williams' Bakery, Springfield	275	2006
Total New Customer Jobs	751	

Without the additional improvements offered by the track projects, this pace of industrial development may lessen as customers seeking rail service are forced to consider railroads in other geographic areas as an alternative to the operational capacity constrained CORP.
Indirect and Induced Jobs In addition to the direct jobs described above, we estimate that the project could create an additional 1,523 indirect and induced jobs per year over the 22 year period including construction and operation of the improvements.

ADDENDUM PAGE 10: Attach additional text here as necessary, identifying the corresponding application question number you are completing.

ADDENDUM PAGE 11: Attach additional text here as necessary, identifying the corresponding application question number you are completing.

ADDENDUM PAGE 12: Attach additional text here as necessary, identifying the corresponding application question number you are completing.

Attachment A:

CORP Track Improvement Public Benefit Brief

Public Benefit
Central Oregon & Pacific Railroad Track Improvements

- Avoided Social Costs from Additional Truck Trips (Congestion, air pollution, noise, and accident):
  - Total: $8,600,000
  - Net Present Value (7% Gov't discount Rate): $4,200,000
- Reduced Traffic Congestion:
  - Avoids Up To 63,000 Annual Truck Trips
  - Reduces Truck Average Annual Daily Traffic (AADT) in Roseburg area by up to 4%
- Reduced Emissions:
  - Decreased NOx emissions by 35 tons in 2012
- Reduced Fuel Consumption
  - Decreased Fuel Consumption by up to 1 Million Gallons Annually by 2015
- Reduced Costs to Shippers
  - Reduces transportation and logistics costs by up to $17,000,000 per year for Oregon forest products industries.

Attachment B:

Economic & Social Benefit of Diverting Truck Traffic with CORP Yard Improvements

Economic & Social Benefit

of

Diverting Truck Traffic

with

Central Oregon and Pacific Railroad Track Improvements

Track Improvements

Public Benefit from Marginal Cost Avoidance of Additional Truck Trips

The public benefit of the proposed CORP track improvements is based on avoidance of marginal highway costs. These costs are from the impact of each additional truck upon Oregon freeways (I-5). As Oregon recovers most costs associated with additional pavement damage, the costs evaluated are the social costs including congestion, air pollution, noise, and accidents.

The 2005 base year carload traffic was over 52,000 carloads. Existing maximum mainline capacity is approximately 55,000 carloads per year. The proposed track improvements yard would increase that capacity to approximately 64,000 carloads per year.

Each carload generates the equivalent of 3.5 loaded truck trips. Since lumber (the major commodity moved by CORP) uses unique equipment, the possibility of a backhaul is nil, and this empty backhaul is also attributed to a carload for another 3.5 trips.

The marginal costs are calculated by multiplying a cost factor per mile for each truck trip, based on truck weight, and urban/rural freeway designation. The lighter weights were used to calculate the empty backhaul. The diverted truck traffic would use a mix of I-5 northbound or southbound. The total truck trips were evenly split between northbound and southbound. The calculations are on the spreadsheets associated with this study.

The results are calculated with a carload growth rate of 5% and a Government discount rate of 7%. This gives a net present value of the public benefits from avoided marginal costs of $4,200,000.

Marginal Cost Calculations

From 2000 FHWA update to the 1997 Highway Cost Allocation Study.

Table 13. 2000 Pavement, Congestion, Crash, Air Pollution, and Noise Costs for Illustrative Vehicles Under Specific Conditions

Vehicle Class/Highway Class	Cents per Mile					
	Pavement	Congestion	Crash	Air Pollution	Noise	Total
Autos/Rural Interstate	0	0 78	0 98	1 14	0 01	2 91
Autos/Urban Interstate	0 1	7 70	1 19	1 33	0 09	10 41
40 kip 4-axle S U Truck/Rural Interstate	1 0	2 45	0 47	3 85	0 09	7 86
40 kip 4-axle S U Truck/Urban Interstate	3 1	24 48	0 86	4 49	1 50	34 43
60 kip 4-axle S U Truck/Rural Interstate	5 8	3 27	0 47	3 85	0 11	13 3
60 kip 4-axle S U Truck/Urban Interstate	18 1	32 64	0 86	4 49	1 68	57 77
60 kip 5-axle Comb/Rural Interstate	3 3	1 88	0 88	3 85	0 17	10 08
60 kip 5-axle Comb/Urban Interstate	10 5	18 39	1 15	4 49	2 76	37 28
80 kip 5-axle Comb/Rural Interstate	12 7	2 23	0 88	3 85	0 19	19 86
80 kip 5-axle Comb/Urban Interstate	40 9	20 06	1 15	4 49	3 04	69 84

NOTE S U = Single Unit, Comb = Combination, Air pollution costs are averages of costs of travel on all rural and urban highway classes, not just Interstate Available data do not allow differences in air pollution costs for heavy truck classes to be distinguished

The additional truck trip from the Roseburg area will be 100 miles to the closest rail transload facility. The majority of this mileage is classified as rural. Baseline calculation for the study will be 3.5 truckloads per carload, plus the backhaul. Loaded trucks are considered 80k and the empty at 50 k.

Costs per mile excluding pavement damage are $0.0715 per mile for rural 80k truck (load), and $0.0678 per mile for rural 60k truck (empty). Each truck trip at 100 miles each way accounts for $13.93. Therefore, each carload saves 3.5 x $13.93 or $48.75 within the State of Oregon.

Assuming 5% freight rail traffic growth, total social costs avoided from 2008 through 2027 are $8,600,000. Total social costs considering 7% annual discount rate are $4,200,000

Additional Truck Trips Avoided

The track improvements would avoid additional truck trips associated with the shift from rail to truck. Many of the trips would move to another railroad transload facility, while others would be entirely truck and cross the state line. The estimates used in this study were conservative in that they limited the additional truck trips to 100 miles from the area of Roseburg. Trips were evenly split between northbound and southbound on I-5 in the vicinity of Roseburg. This assumption gives the most conservative estimate for truck traffic impacts.

The yard will reduce additional annual truck trips on I-5 by approximately 63,000 by 2015. Most of these truck trips would increase the Average Annual Daily Traffic (AADT) in the area of Roseburg. Truck increase is 2% northbound in 2024, and 4% southbound in 2018.

Reduced Emissions

New requirements for improved diesel emissions technologies will reduce emissions for both truck and rail. But even with these improvements, rail has a lowered rate of emission per ton-mile. For NOx, the estimated reduction in emissions for the year 2012 as a result of avoided truck trips is .4 grams per ton mile. Based upon a count of 165,000 ton-miles, the reduction amounts to 35 tons of NOx in 2012

Reduced Fuel Consumption

Diesel engine design has resulted decreased fuel consumption for both truck and locomotive engines. But using existing fuel consumption rates, the yard could reduce increased fuel consumption due to additional truck trips by up to 1 million gallons per year by 2015.

Lower Shipping costs.

Using the LA Basin as a major consumption market for forest products, analysis shows a transportation rate differential of $1900 per carload for truck vs rail. This estimate is conservative in that many shipments have an even longer length of haul. The additional logistics costs which could be borne by the forest products industry would be in up to $17,000,000 per year.

Attachment C:

CORP Track Project List Spreadsheet

CORP Connect Oregon Plan

	Program	Description	Cost	Comments
CORP	Curve Rail (ln.ft.)	Relay 79,060 LF of curve worn rail on various curves on the Roseburg, Siskiyou, and Coos Bay Subdivisions.	$3,390,000	
CORP	OOF Rail (ln. ft.)	Relay 141,122 LF of 90# jointed rail with 112# or larger Continuous Welded Rail on the Roseburg Sub.	$872,686	
CORP	Ties (each)	Replace 85,358 defective cross ties	$5,093,985	
CORP	Surfacing (miles)	Surface 111 miles of track	$797,190	
CORP	Crossings (trk)	Renew Old Hwy 99 crossing at MP 557.3	$50,209	
CORP	Switch Ties(bd.ft.)	Replace 249 switch ties at various locations	$43,226	
CORP	Turnouts	Replace 5 turnouts at Dillard Yard	$96,230	
CORP	Bridges	Make repairs on various bridges based on the annual bridge inspection	$500,000	
CORP	Signals	Eliminate remaining pole line and replace with electracode	$350,000	
CORP	Grinding	Grind 284 Pass miles between MP 345 - 487	$222,298	
CORP	Tunnel Repairs	Repair tunnel lining in tunnels 13, 15, and 20 on the Coos Bay Subdivision	$724,000	
CORP	Joint Elimination	Eliminate 350 joints in welded rail	$239,750	
CORP	Misc.		$0	

PROJECT TOTAL **$12,379,574**

CORP MATCHING FUNDS **$5,025,812** **40.6%**

ConnectOregon Funded Projects - ODOT Region 2 **$1,477,492**
ConnectOregon Funded Projects - ODOT Region 3 **$5,876,270**

CORP Matching Funds Projects

	Program	Description	Cost	Comments	Schedule
CORP	Curve Rail (ln.ft.)	Relay 79,060 LF of curve worn rail on various curves on the Roseburg, Siskiyou, and Coos Bay Subdivisions.	$990,000	Rail purchased in '05 and cost not in this figure	5/1/06 - 8/4/06
CORP	OOF Rail (ln. ft.)	Relay 62,063 LF of 90# jointed rail with 136# Continuous Welded Rail on the Roseburg Sub.	$872,686	Rail purchased in '05 and cost not in this figure	5/1/06 - 8/4/06
CORP	Ties (each)	Replace 39,888 defective cross ties MP 403.16 - MP 430, MP 606 - MP 629	$2,178,985		05/15/2006 - 8/11/06
CORP	Surfacing (miles)	Surface 80 miles of track (Surfacing limits will mirror the Tie and Rail project limits)	$574,476		5/15/06 - 8/31/06
CORP	Crossings (trk)	Renew Old Hwy 99 crossing at MP 557.3	$50,209		10/1/06 - 10/31/06
CORP	Switch Ties(bd.ft.)	Replace 249 switch ties at various locations from MP 560 - MP 565	$43,226		3/1/06 - 4/30/06
CORP	Turnouts	Replace 5 turnouts at Dillard Yard mp 560.3, MP 560.4, MP 560.5, MP 560.9, MP 561.0	$96,230		3/1/06 - 4/30/06
CORP	Bridges	Make repairs on various bridges based on the annual bridge inspection	$200,000		6/106 - 8/31/06
CORP	Signals	Eliminate pole line and replace with electracode MP 600 - MP 605	$20,000		3/1/06 - 5/31/06
CORP	Grinding				
CORP	Tunnel Repairs				
CORP	Joint Elimination				
CORP	Misc.				

CORP TOTAL $5,025,812

Connect Oregon Funded Projects
ODOT Region 3

Priority	Program	Description	Cost	Comments	Schedule
4	Curve Rail (ln.ft.)	Relay 60,810 LF of curve worn rail on various curves on the Roseburg, Siskyou, and Coos Bay Subdivisions.	$1,845,990		5/1/07 - 8/31/07
	OOF Rail (ln. ft.)				
1	Ties (each)	Replace 50,000 defective cross ties MP 487 - MP 539, MP 589 MP 602	$2,915,000		6/1/07 - 10/31 07
2	Surfacing (miles)	Surface 27.5 miles of track (Surfacing limits will mirror Rail and Tie project limits)	$197,569		6/15/07 - 11/15/07
	Crossings (trk)				
	Switch Ties(bd.ft.)				
	Turnouts				
5	Bridges	Make repairs on various bridges based on the annual bridge inspection	$80,000		7/1/07 - 10/31/07
6	Signals	Eliminate remaining active pole line and replace with electracode MP 605 - 620.96, MP 430 - MP 440	$271,573		3/1/07 - 8/31/07
7	Grinding	Grind 168 Pass miles between MP 403.16 - 487	$222,298		05/01/07 - 6/15/07
3	Tunnel Repairs	Repair tunnel lining in tunnel 20 on the Coos Bay Subdivision	$152,040		4/1/07 - 7/31/07
8	Joint Elimination	Eliminate 280 joints in welded rail MP 540 - MP 620.96	$191,800		3/1/07 - 6/30/07
	Misc.				

CONNECT OREGON TOTAL $5,876,270

Connect Oregon Funded Projects
ODOT Region 2

Priority	Program	Description	Cost	Comments	Schedule
2	Curve Rail (ln.ft.)	Relay 18,250 LF of curve worn rail on various curves on the Roseburg and Coos Bay Subdivisions.	$554,010		5/1/07 - 8/31/07
	OOF Rail (ln. ft.)				
	Ties (each)				
3	Surfacing (miles)	Surface 3.5 miles of track (Surfacing limits will mirror Rail project limits)	$25,145		6/15/07 - 11/15/07
	Crossings (trk)				
	Switch Ties(bd.ft.)				
	Turnouts				
4	Bridges	Make repairs on various bridges based on the annual bridge inspection	$220,000		7/1/07 - 10/31/07
5	Signals	Eliminate remaining active pole line and replace with electracode MP 630.7 - MP 644.1	$58,427		3/1/07 - 8/31/07
	Grinding				
1	Tunnel Repairs	Repair tunnel lining in tunnels 13 and 15 on the Coos Bay Subdivision	$571,960		4/1/07 - 7/31/07
6	Joint Elimination	Eliminate 70 joints in welded rail MP 620.96 - MP 644	$47,950		3/1/07 - 6/30/07
	Misc.				

CONNECT OREGON TOTAL $1,477,492

CORP Rail Projects

Curve #	MP	Degree	East/West Rail	VHL	GFL	Existing Rail	Length	Relay Year	Comments
403D	403 5	6	West	1/4	1/2	113	800	2006	
405E	405 4	11	East		5/8	132	200	2006	
405F	405 45	9	East	1/4		132	200	2006	
405G	405 5	9	East		5/8	136	100	2006	
406D	406 7	10	West	1/4	1/2	132	300	2006	
407A	407 3	10	West		1/2	132	800	2006	
408A	408 2	10	East		5/8	132	600	2006	
408D	408 6	10	East		1/2	113	450	2006	
412A	412 3	10	East	5/8		132	550	2006	
412A	412 3	10	West	1/2		132	550	2006	
413A	413 15	10	West	5/8		132	700	2006	
413A	413 15	10	East		1/2	132	700	2006	
414F	414 6	10	West	5/8		132	500	2006	
414F	414 6	10	East		5/8	132	500	2006	
416F	416 7	10	East		5/8	132	1000	2006	
417A	417 15	10	East		5/8	132	1000	2006	
418A	418 2	10	West	1/4	5/8	132	750	2006	
418E	418 6	10	West	1/2		132	650	2006	
418E	418 6	10	East		1/2	132	650	2006	
419B	419 45	10	East		5/8	132	600	2006	
419C	419 55	10	West		1/2	113	500	2006	
495	495	10 5	West			113	800	2006	
495	495	10 5	East			113	800	2006	
495A	495 1	8 6				113	700	2006	
495C	495 4	9				113	500	2006	
496B	496 4	10				113	800	2006	
497C	497 6	10				113	700	2006	
503D	503 9	8 5				113	820	2006	
518B	518 15	8	West	5/8		136	650	2006	
533	532 9	10				113	1350	2006	
534C	534 6	4	West			112	1000	2006	And tangent north
534C	534 6	4	East			112	1000	2006	And tangent north
535	534 9	10	West			113	1380	2006	
535	534 9	10	East			113	1380	2006	
553D	553 9	10	West	1/4	3/8	112	400	2006	
556A	555 5	8/3	West	1/4	3/8	113	600	2006	8 deg portion of compound only
564D	564 3	8	East\	3/8	3/8	112	300	2006	
564G	564 6	5	West	1/4	3/8	113	500	2006	
565	564 9	6	West	1/4	3/8	112	1300	2006	
567	566 9	4	West	1/4	3/8	113	1100	2006	
571B	571 7	5	West			113	500	2006	
571B	571 7	5	East			113	500	2006	
571C	571 8	4	West			113	600	2006	
571C	571 8	4	East			113	600	2006	
573	573 15	7	West	1/2		136	1500	2006	
573	573 15	7	East	1/2	1/4	136	1500	2006	
573A	573 35	7	West	3/8	1/2	132	500	2006	
578	578 15	5 5	East	3/8	1/2	113	400	2006	
578A	578 25	5 5	West	3/8	1/2	113	600	2006	
588	588	8	West	3/8	1/2	112	1000	2006	
588B	588 15	7	West	1/4	1/2	112	650	2006	
594C	594 75	11	West	5/8		136	600	2006	
595A	595 55	4	West	3/8	3/8	113	800	2006	
598C	598 7	10	East	1/4	1/2	133	1500	2006	
607	607 3	6	East	1/2	1/2	136	1800	2006	
607A	607 5	6	West	3/8	1/2	136	750	2006	
610B	610 6	4	West	1/4	1/2	133	1050	2006	
618B	618 6	7	West	3/8	5/8	132	950	2006	

CORP Rail Projects

618C	618 7	8	West	5/8		132	700	2006	
618C	618 7	8	East	1/2	3/8	132	700	2006	
620A	620 1	10	West	3/8	1/2	132	900	2006	
620A	620 1	10	East	5/8		132	900	2006	
621	620 9	7	West	3/8	1/2	132	1600	2006	
643B	643 3	8	East	1/4	5/8	132	1100	2006	
666A	666 7	8	East	1/2		113	1050	2006	
670	370	8	West	1/2	3/8	113	800	2006	
674	674	8	West	3/8	3/8	113	1600	2006	
683	682 9	8	West	1/4	1/2	113	2290	2006	
686A	686 4	8	East	1/4	3/8	113	1160	2006	
688	687 9	8	West	1/4	3/8	113	700	2006	
688C	688 6	4	West	1/4	1/2	115	900	2006	
689	688 9	4/2	West	1/4	1/2	115	2290	2006	4 deg portion only
689A	689 6	8/4	East	1/4	1/2	113	2290	2006	
690A	690 2	3	West	1/4	3/8	112	620	2006	
691	691 15	8	West	1/4	1/2	112	610	2006	
694	694 1	8	East	1/4	1/2	113	800	2006	
699	698 9	4	East	1/4	3/8	113	1300	2006	
703D	703 8	5	East	1/4	3/8	115	466	2006	
704A	704 25	7	East	3/8	1/2	132	1400	2006	
706	706 1	4	East	1/4	1/2	115	3200	2006	Both rails of curve
719B	719 6	7	East	1/4	5/8	113	700	2006	
719C	719 8	8	West	1/4	5/8	132	1200	2006	
723	723	4	East	1/4	1/2	115	900	2006	
726	725 9	8	East	1/4	5/8	132	900	2006	
726C	726 8	8	East	1/2	1/2	136	1320	2006	
735	735	4	West	1/4	1/2	115	1300	2006	
735B	735 4	4	West	1/4	1/2	115	800	2006	
736C	736 7	5	East	1/4	1/2	112	500	2006	
765B	765 85	8	West	3/8	1/2	115	500	2006	
Tan	516 45					90	700	2006	Second Hand Rail - Both
517C	517 35	9				113	750	2006	Second Hand Rail - High
517D	517 6	9				113	850	2006	Second Hand Rail - High
524B	523 4	10				132	600	2006	Second Hand Rail - High
525B	525 3	4				132	600	2006	Second Hand Rail - High
531	531	8				113	400	2006	Second Hand Rail - High
538B	538 5	8				113	1400	2006	Second Hand Rail - High
559D	559 8	4				90	8300	2006	SH Rail - Curve and Tangent
561	561	3				90	14200	2006	SH Rail - Curve and Tangent
Tan	562 8					90	6600	2006	Second Hand Rail - Both
Tan	566 3					90	5500	2006	Second Hand Rail - Both
Tan	5667					90	17100	2006	Second Hand Rail - Both
Tan	570 6					90	5500	2006	Second Hand Rail - Both

Curve Rail Total **79238**
OOF Rail Total **62500**

ConnectOregon Rail Projects

Curve #	MP	Degree	East/West Rail	VHL	GFL	Existing Rail	Length	Relay Year	Comments
403E	403 75	4	East	1/4	3/8	112	500	2007	
404A	404 25	9	West		1/2	132	600	2007	
405F	405 45	9	West	3/8	3/8	136	200	2007	
405J	405 9	7	East	1/4	1/2	136	200	2007	
406A	406 1	10	West		1/2	132	200	2007	
406E	406 8	10	East	1/4	1/2	136	500	2007	
409A	409 2	10	East		1/2	132	500	2007	
409C	409 5	10	East		1/2	132	700	2007	
409D	409 7	7 5	West	3/8		113	1000	2007	
410	410	9	East		1/2	132	550	2007	
410C	410 65	10	East		1/2	132	800	2007	
411	411	10	West	3/8		132	450	2007	
411	411	10	East		3/8	132	450	2007	
413C	413 6	12	West	1/2		132	1200	2007	
415E	415 75	4	West	1/2		132	550	2007	
416B	416 2	3 5	East	1/2		136	300	2007	
416D	416 5	7	East		1/2	132	400	2007	
416E	416 55	10	West		1/2	132	450	2007	
417C	417 6	8	East		1/2	132	500	2007	
418	418	14	East		1/4	136	2000	2007	Hi to low
418B	418 35	8	East		1/2	136	600	2007	
418D	418 55	9	West		1/2	132	400	2007	
418D	418 55	9	East	3/8		132	400	2007	
419D	419 7	10	East		1/2	132	300	2007	
419E	419 8	10	West		1/2	132	500	2007	
419F	419 9	10	East		1/2	132	350	2007	
420C	420 25	10	East	1/2		136	600	2007	
420E	420 7	10	East	1/4	1/2	132	700	2007	
421B	421 35	8	West	1/2		132	400	2007	
424B	424 3	5	West		1/2	132	1000	2007	
426A	426 3	7.5	East		1/2	132	1000	2007	
454	453 9	6	East	1/4	3/8	113	1900	2007	
456A	456 6	6	West		3/8	112	2200	2007	
468	468 15	4	West		3/8	113	2000	2007	
551B	551 5	8	West		1/2	132	400	2007	
553	553 1	8	West	1/4	1/2	132	1000	2007	
563B	563 6	6	West	1/4	3/8	113	300	2007	
563E	563 9	6	West	1/4	3/8	113	200	2007	
564A	564 05	4	West	1/4	3/8	112	200	2007	
564H	564 7	6	East	1/4	3/8	113	500	2007	
573A	573 35	7	East	3/8		132	500	2007	
589A	589 4	7	West	1/4	3/8	132	800	2007	
589A	589 4	7	East	1/2		132	800	2007	
594A	594 45	8	East	3/8	3/8	136	800	2007	
594C	594 75	11	East	1/4	3/8	136	600	2007	
595	595 1	8	West		1/2	136	1200	2007	
596A	596 65	6	West	3/8	3/8	136	1000	2007	
596A	596 65	6	East	1/2		136	1000	2007	
596B	596 85	6 5	East	3/8	3/8	136	600	2007	
597	597	6	West	3/8	3/8	136	700	2007	
606	606.4	4	West	3/8	3/8	132	1400	2007	
618D	618 8	8	West	3/8	3/8	136	900	2007	
620	620	7	West	1/2		132	600	2007	
620	620	7	East	1/2	3/8	132	600	2007	

ConnectOregon Rail Projects

643A	643 1	6	West	1/2		132	800	2007	
644A	644 6	4	West	1/2		132	2000	2007	
644A	644 6	4	East	3/8	1/2	132	2000	2007	
667B	667.4	8	West	1/4	3/8	132	1000	2007	
677B	677 6	6	East	1/2		136	1100	2007	
681B	681 6	6	West	1/4	3/8	132	1800	2007	
684A	684 45	4	West		3/8	113	900	2007	
686	686 1	6	East	3/8	1/4	136	1150	2007	
686	686 1	6	West		1/2	136	1150	2007	
698	698 2	8	East	1/2		136	1000	2007	
703C	703 5	6	West	1/4	3/8	115	500	2007	
707B	707 4	4	East	1/4	3/8	115	550	2007	
718	718 1	3 5	East	3/8	3/8	115	1400	2007	
718B	718 8	4	East	1/4	3/8	115	750	2007	
720	720	6	East	1/4	1/2	136	1200	2007	
724A	724 2	7	West	1/4	3/8	113	950	2007	
729A	729 1	4	West		3/8	115	900	2007	
740	740 5	5	West	1/4	1/2	115	2380	2007	
749	749 2	3/5	West	1/4	1/2	115	1400	2007	5 deg portion only
749A	749 4	5	East	1/4	1/2	110	1200	2007	
406	406	7 5	East	1/4	3/8	136	300	2007	
416A	416 15	10	West		3/8	132	700	2007	
422B	422 45	10	West		3/8	132	650	2007	
578B	578 4	5	West		3/8	132	900	2007	
579	579 3	3	West		3/8	132	1100	2007	
591B	591 8	6	West		3/8	132	1100	2007	
569 2	570 3	tan	both				11620	2007	

Rail Relay Total 79000

Attachment D:

CORP Track Improvement Public Benefit Analysis Spreadsheets

Central Oregon & Pacific Track Project Impact Analysis

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2027
Annual Carload Demand		55,054	57,806	60,697	63,731	66,918	70,264	73,777	77,466	81,339	85,406	89,677	94,160	153,377
Without Track Improvements														
Actual Annual Carloads		55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000
Carloads Diverted to Truck		54	2,806	5,697	8,731	11,918	15,264	18,777	22,466	26,339	30,406	34,677	39,160	98,377
Additional Truck Trips		375	19,644	39,876	61,120	83,426	106,847	131,440	157,262	184,375	212,843	242,736	274,122	688,641
With Track Improvements														
Actual Annual Carloads		55,000	55,000	60,697	63,731	64,000	64,000	64,000	64,000	64,000	64,000	64,000	64,000	64,000
Carloads Diverted to Truck		54	2806	0	0	2918	6264	9777	13466	17339	21406	25677	30160	89377
Additional Truck Trips		375	19644	0	0	20426	43847	68440	94262	121375	149843	179736	211122	625641
Truck Trips Avoided with New Yard		0	0	39,876	61,120	63,000	63,000	63,000	63,000	63,000	63,000	63,000	63,000	63,000

Base Year Carloads - 2005	52,432
Existing Railroad Capacity	55,000
CORP Annual Carload Growth	5%
Existing System Dwell (days)	5.87
Improved System Dwell (days)	6.87
Additional Capacity From Track Improvements	64,370

Central Oregon & Pacific Track Project Impact Analysis

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2027
Additional Truck Trips		0	0	39,876	61,120	63,000	63,000	63,000	63,000	63,000	63,000	63 000
Public Costs - Other		$0	$0	$277,737	$425,701	$438,795	$438,795	$438,795	$438,795	$438,795	$438,795	$438,795
10 Year												
Total Public Costs - Other		$4,213,798										
NPV Public Costs - Other		$2,728,929										
20 Year												
Total Public Costs - Other		$8,601,748										
NPV Public Costs - Other		$4,193,124										

Public costs are social costs from additional truck trips including congestion, air pollution, noise, and accidents
Pavement damage costs are excued as these additional costs are recovered by truck VMT fees

Miles per Truck Trip	100
Public Discount Rate	7%

Load	cents per mile
Pavement - Urban	40 9
Pavement - Rural	12 7
Other - Urban	28 64
Other - Rural	7 15
Empty	
Pavement - Urban	10 5
Pavement - Rural	3 3
Other - Urban	26 78
Other - Rural	6 78

Central Oregon & Pacific Track Project Impact Analysis

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2027
Additional Truck Trips		0	0	39,876	61,120	63,000	63,000	63,000	63,000	63,000	63,000
Additional VMT		0	0	3,987,616	6,111,997	6,300,000	6,300,000	6,300,000	6,300,000	6,300,000	6,300,000

Additional Traffic Without Track Improvement

		2004	2024
MP 129 22 (Northbound)			
Total AADT		32300	46900
Truck AADT		3898	
% Truck		12 07%	
Additional Truck AADT			121
Increased Truck AADT 2024			2 1%
Total % Increase in 2024			0 3%
		1998	2018
MP 119 51 (Southbound)			
Total AADT		39300	54100
Truck AADT		1796	
% Truck		6 13%	
Additional Truck AADT			121
Increased Truck AADT 2024			3 7%
Total % Increase in 2018			0 2%

Data from ODOT OTMS Traffic Volumes and Vehicle Classificaton tables

Central Oregon & Pacific Track Project Impact Analysis

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2027
Additional Truck Trips		0	0	39,876	61,120	63,000	63,000	63,000	63,000	63,000	63,000
Additional Ton-miles		0	0	49,845,198	76,399,957	78,750,000	78,750,000	78,750,000	78,750,000	78,750,000	78,750,000
Additional Tons Nox		0		36		48		35			
Additional Fuel Consumption (gal)		0	0	643,003	985,559	1,015,875	1,015,875	1,015,875	1,015,875	1,015,875	1,015,875

Nox Emissons (g/ton-mile)		2006		2008		2010		2012
Truck		1 5		1		0 8		0 65
Rail		0 7		0 35		0 25		0 25

Fuel Consumption per Ton-mile		
Truck		0 0179
Rail		0 0050

Central Oregon & Pacific Track Project Impact Analysis

		2006	2007	2008	2009	2010	2011	2012	2013	2027
Additional Loaded Truck Trips		0	0	19,938	30,560	31,500	31,500	31,500	31,500	31,500
Additional Shipper Costs		$0	$0	$11,014,934	$16,883,081	$17,402,400	$17,402,400	$17,402,400	$17,402,400	$17,402,400
10 Year										
Total Add'l Shipper Costs		$149,714,815								
Avg Per Year		$14,971,482								
20 Year										
Total Add'l Shipper Costs		$341,141,215								
Avg Per Year		$17,057,061								

Roseburg to LA Basin

Rail Rate (HC CB Car)	$4,694
Truck Mileage	789
Truck Rate Per Mile	$2.40
Total Truck Rate	$1,893.60

6

REDACTED

7

REDACTED

8

Correspondence

RICHARD F. TIMMONS
PRESIDENT
AMERICAN SHORT LINE AND REGIONAL RAILROAD ASSOCIATION
50 F STREET, N.W., SUITE 7020
WASHINGTON, D.C. 20001-1564
(202) 585-3442

June 16, 2008

The Honorable Anne K. Quinlan
Acting Secretary
Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

Re: Finance Docket No. ~~35106~~ 35130, Central Oregon & Pacific Railroad, Inc. – Coos Bay Rail Line

Dear Secretary Quinlan:

I have read the Reply filed by the Port of Coos Bay in this matter and feel compelled to respond on behalf of the entire small railroad industry. Underlying all the arguments propounded by the Port is the proposition that when small railroads acquire long neglected rights of way from class I railroads they have an obligation to bring those lines up to a gold plated standard to be defined in each case by the shippers along the line. Were the Board to incorporate such a notion into its ruling in the current case, it would set a standard the only immediate consequence of which would be the abrupt and permanent end to the acquisition of all marginal rail lines by class II and class III carriers in the United States.

The enormously successful model that created today's robust small railroad industry was built on the concept that smaller, more nimble carriers could operate marginal lines at lower costs than the giant class I carriers, thus saving them from certain abandonment and preserving important segments of the nation's rail transportation infrastructure. But as ASLRRA has observed many times before this Board, the more entrepreneurial short line operators who stepped up to the challenge of preserving light density rail service for America's shippers do not have the access to capital that the large railroads enjoy. And what capital they can attract *comes at a much higher price than that paid by the investment grade class I's. In the whole* they simply cannot afford the cost of immediate upgrade to lines subject to prior long periods of deferred maintenance, and even if they could, it would not be economic to do so.

The higher cost to attract any capital to light density lines reflects a hard fact. at best acquiring small, marginal rail lines is a risky proposition. By definition they are marginal because their shippers are few and their continued flow of traffic is uncertain. The lack of significant revenue on those lines is the primary reason their class I owners 'deferred' maintenance on their track and structures. they could not justify diverting scarce capital dollars from main lines critical to the national rail infrastructure to remote branch lines with little traffic.

Typically those lines languished and withered over a period of years, sometimes decades, as they slowly sank into abandonment. The ever present risk of natural disasters and unexpected structural failures adds to the risk. It takes an audacious, entrepreneurial spirit to consider acquiring such doubtful properties If deep pocketed class I railroads with access to cheap capital cannot – or will not – make these investments even over time, there should be no expectation that small railroad companies can or should do it and do it before business prospects improve.

In this environment to impose a requirement that acquiring operators upgrade a line which has suffered years of neglect to a predetermined standard within a time certain will inevitably eliminate the possibility that those lines can be saved from abandonment, and assuredly cut off rural and small communities from the national rail freight network. It simply does not reflect the reality of why such lines are available for sale or lease in the first place. In effect it raises the cost of an acquisition to a price that makes no economic sense for the purchaser After all, if the cost could be justified, the class I owner would presumably have made it rather than search for an operator whose lower costs make operating a marginal line viable. Almost by definition an operation predicated on low costs cannot function if immediate and onerous upgrade costs are imposed upon it either as a condition of regulatory approval or under threat of sanction.

Because risk is inherent in the short line railroad model alternative to abandonment, it is inevitable that sometimes in some situations at the end of the day service cannot survive. This is lamentable, but the examination of twenty five years of small railroad growth across the country demonstrates that in the great majority of cases, many miles of railroad have been saved from the chopping block and for the majority of shippers on these lines service has steadily improved to the point that excellent service is now the hallmark of short line operation. The notion suggested by the Port of Coos Bay in this case that a small railroad taking over a light density abandonment candidate should upgrade that line to class I standards within a period presumably to be determined by shippers and government will kill the model that has been the engine of renaissance for much of America's rural and light density branch lines. I urge the Board to reject unequivocally this short sighted proposition.

Respectfully,

Richard F. Timmons

Richard F. Timmons
President

PATTON

BEFORE THE
SURFACE TRANSPORTATION BOARD

Central Oregon & Pacific Railroad, Inc – Abandonment and Discontinuance of Operations – in Coos, Douglas and Lane Counties, Oregon (Coos Bay Rail Line)	)	Docket No. AB-515 (Sub-No. 2)

VERIFIED STATEMENT OF STEVEN PATTON

My name is Steven Patton. I am a track inspector for the Central Oregon & Pacific Railroad, Inc. ("CORP"). My business address is 333 Southeast Mosher, Roseburg, OR. I have more than 30 years of experience in the rail industry, most of which has been spent working on what is now CORP's Coos Bay Subdivision between Milepost 763.130 near Cordes, OR and Milepost 652.114 near Danebo, OR. I began my railroad career with the Southern Pacific Transportation Company ("SPT") in 1976 as a labor operator assigned to the SPT Track Inspector. In that position, I was responsible for operating the high-rail vehicles and/or motor vehicles in which track inspections were conducted. For approximately 15 of the 19 years that I worked for SPT, I was assigned to the territory that included the Coos Bay Subdivision. As a result, I participated regularly in track inspections of the Coos Bay Subdivision, and became familiar with the condition of that line during the period of in which SPT owned it.

When CORP purchased its current rail lines from SPT in late 1994, I joined CORP as Track Inspector My responsibilities as Track Inspector include regular inspections of CORP's rail lines, including the Coos Bay Subdivision. Based upon my experience, I have first-hand knowledge regarding the condition of the Coos Bay Subdivision, and the level of maintenance of that line, over the past 30 years, including the time SPT operated the line, the time at which CORP acquired the line from SPT, and the time during which CORP has owned and operated the line.

The purpose of this Verified Statement is to respond to allegations by the Oregon International Port of Coos Bay (the "Port") and certain other parties that CORP has neglected or failed to maintain the Coos Bay Subdivision, and that, as a result, the line is in substantially worse condition than it was at the time SPT sold it to CORP. Such accusations are not true. As my testimony will show, the Coos Bay Subdivision (and, in particular, the tunnels on the line) was in a deteriorated condition at the time it was purchased by CORP, due to cutbacks in maintenance by SPT in the years leading up to the sale. Indeed, the overall track condition of the Coos Bay Subdivision today is no worse than it was at the time CORP purchased it Moreover, the tunnels along the line, which are a century old, were already in a very deteriorated state at the time of the sale to CORP. Until the time of the embargo in September 2007, CORP continued SPT's practice of performing ordinary tunnel maintenance at a level sufficient to permit continued train operations.

When I began working for SPT in 1976, the Coos Bay Subdivision handled a far greater volume of traffic than it does today. The challenging terrain and climate in which the Coos Bay Subdivision is located have always made it an expensive line to maintain. Nevertheless, during the 1970s and early 1980s, the line was well-maintained by SPT, generally to FRA Class 2 and Class 3 standards, permitting speeds of up to 30 MPH and 40 MPH. In addition, SPT performed regular maintenance work on the tunnels along the Coos Bay Subdivision. As a Class I railroad, SPT had several dedicated tunnel maintenance crews that were responsible for performing tunnel work both on the Coos Bay Subdivision and elsewhere on the SPT system. Several tunnels on the Coos Bay Subdivision, including Tunnel 15 – one of the tunnels that caused CORP to embargo the line in 2007 – showed substantial signs of deterioration even during the 1980s and required significant attention from SPT repair crews.

Over time, SPT did not sustain its prior level of maintenance on the Coos Bay Subdivision. Beginning in the late 1980s – a time when traffic on the line was decreasing – SPT performed less maintenance on the Coos Bay Subdivision than it had previously. As a result, the quality of the track began to decline in the early 1990s. By the time the Coos Bay Subdivision was sold to CORP at the end of 1994, a substantial portion of the line had been reduced to FRA Class I track standards, with a maximum speed limit of 10 MPH. During the last four to five years before it sold the Coos Bay Subdivision to CORP, SPT did not perform any significant rehabilitation work on the aging tunnels on the line.

As a result when CORP assumed operation of the Coos Bay Subdivision, the line suffered from a substantial amount of deferred maintenance. While some of the line consisted of FRA Class 2 track, significant portions were FRA Class 1 track. No substantial tunnel work had been performed in five years. Any suggestion that CORP bought a rail line in pristine condition is simply not correct.

In the years since it acquired its rail lines (including the Coos Bay Subdivision) from SPT, CORP has made substantial efforts to maintain those lines. As witness Lundberg testifies, CORP has consistently made large investments for both ordinary maintenance and capital improvements on the Coos Bay Subdivision, even during the past several years when the Coos Bay Subdivision has operated at a substantial loss. At the time the line was embargoed in September 2007, it consisted of a mix of FRA Class 2 and Class 1 track – an overall condition very similar to that which existed at the time CORP purchased the line from SPT.

Until the time of the embargo, CORP performed ordinary repairs to the tunnels as necessary to keep the line operational. Such tunnel repair work included applying steel strapping to weakened timber supports or bracing supports to prevent failures, and removing mud and

water from the track and ditches within the tunnels to promote drainage. However, CORP did perform more extensive repairs to the tunnels when it became necessary to do so. In 1998, for example, a fire inside Tunnel 21 near Lakeside, OR required CORP to undertake major structural repair work to that tunnel. CORP hired an outside contractor to perform this major tunnel rehabilitation work. More recently, in 2006, CORP performed major repair work in Tunnel No. 15 in response to an inspection that found unsafe conditions in that tunnel (and the collapse of the tunnel during minor repair work to correct the conditions identified during the inspection).

In conclusion, based upon my first-hand knowledge of the condition of the track and tunnels on the Coos Bay Subdivision, I believe that any claim by the Port that CORP has been negligent in maintaining the Coos Bay Subdivision is contrary to the facts.

VERIFICATION

I, Steven Patton, declare under penalty of perjury that the foregoing Verified Statement is true and correct Further, I certify that I am qualified and authroized to file this Verified Statement

Steven Patton

Executed on September 9, 2008

BARANOWSKI

BEFORE THE
SURFACE TRANSPORTATION BOARD

Central Oregon & Pacific Railroad, Inc. – Abandonment and Discontinuance of Service – in Coos, Douglas, and Lane Counties, Oregon (Coos Bay Rail Line)	)	Docket No. AB-515 (Sub-No. 2)

REBUTTAL VERIFIED STATEMENT OF MICHAEL R. BARANOWSKI

My name is Michael R. Baranowski I am a Senior Managing Director of FTI Consulting My business address is 1101 K Street, NW, Washington, DC 20005. As Senior Managing Director, I provide a wide range of economic and consulting services, primarily to clients in the transportation and telecommunications industries. I previously submitted a Verified Statement in conjunction with the Abandonment Application filed by the Central Oregon & Pacific Railroad, Inc. ("CORP") in this proceeding on July 14, 2008. A summary of my qualifications was included as Attachment 1 to that Verified Statement

My prior testimony presented Exhibit 1 to the Abandonment Application and summarized the relevant revenue and cost data for the lines that are the subject of the Abandonment Application (the "Abandonment Segment").

The purpose of this Rebuttal Verified Statement is to respond to certain comments raised by the Oregon International Port of Coos Bay ("Port") and the Coos-Siskyou Shippers' Coalition (the "Shippers") regarding the inputs, assumptions, and conclusions set forth in my prior Verified Statement.

In its comments, the Port argues that, contrary to CORP's showing that there has been a downward trend in traffic moving on the Coos Bay Subdivision, traffic over the

Line is on the upswing Port Comments at 6-7 Specifically, the Port claims that, but for the embargo initiated in September 2007 because of the unsafe condition of the tunnels, 2007 traffic levels over the Line would have reach 5,555 carloads. *Id.* As witness Williams' Rebuttal Verified Statement shows, this speculative assumption is belied by the traffic data for the line, which shows that traffic volume for virtually every shipper has declined over the past several years.

In calculating revenues and costs for the Abandonment Segment for the Forecast Year, I conservatively used the highest annual traffic level (5,363 carloads in 2006) that moved over the Abandonment Segment since the closure of the Weyerhaeuser facility at Cordes, OR in 2004. Based upon that assumed traffic level, I calculated that the Abandonment Segment would experience an avoidable loss from operations of $2,120,161 in the Forecast Year. *See* Abandonment Application, Vol. I, Exhibit 1; V.S. Baranowski at 14.

Even if the number of Forecast Year carloads were increased by 192 carloads, or approximately 3.6 percent, to 5,555 carloads, as the Port suggests, such an increase would not have a positive effect on the Abandonment Segment's avoidable loss from operations, or the estimated subsidy payment computed in Exhibit 1 of my initial Verified Statement. Attachment 1 to this Rebuttal Verified Statement compares the Forecast Year financial results from Exhibit 1 based on the 5,363 carload volume that I used in my prior testimony, and, alternatively, the 5,555 carloads that the Port assumes would have moved over the line during 2007 if not for the embargo. As Attachment 1 shows, adopting the Port's assumed carload volume would actually increase the Forecast Year avoidable loss by approximately $76,000, from $2,120,261 to $2,196,168. This, in turn, would produce

a corresponding increase to the estimated subsidy payment for the Forecast Year, from $7,860,995 to $7,939,625.

The reason why the increase in traffic volume posited by the Port generates a greater avoidable loss is that the combined on-branch and off-branch avoidable costs for carloads moving over the Abandonment Segment exceed the average revenue per carload earned by CORP, producing a loss for each carload moved. This relationship is likely to continue into the future as a result of the annual cap of [[ ]] percent on annual increases in the Handling Carrier Charge received by CORP for traffic handled under its CMA with UP. There is no corresponding "cap" on annual increases in railroad operating costs.

Indeed, given the revenue arrangement applicable to CORP-UP interline traffic (which accounts for nearly ¾ of all traffic moving over the Abandonment Segment) it is, at best, highly unlikely that CORP could ever achieve profitability in operating the Abandonment Segment. To put the problem into perspective, I estimated, using the revenue and cost assumptions from my initial Verified Statement, the number of carloads that would be necessary – at current revenue and cost levels – for the Abandonment Segment to produce a gain from operations. Specifically, I conservatively assumed that while revenues, on-branch transportation costs and off-branch costs would vary directly with the number of carloads, all other on-branch costs (including maintenance of way, mechanical cost, general and administrative expenses and clerical costs) would remain fixed at the Forecast Year levels computed in my Exhibit 1 regardless of the amount of additional traffic on the line. As Table 1 below shows, even under these conservative assumptions, a massive increase in traffic to nearly 20,000 carloads, would be required to enable CORP to earn a profit from operating the Abandonment Segment.

Table 1
Forecast Year Profitability Sensitivity Runs

Inputs Assuming 5,363 Forecast Year Carloads

	Aggregate	Per Car
Revenues	$3,718,631	[ ]
On-Branch Transportation Expenses	$1,836,237	[ ]
On Branch Other Expenses	$2,912,102	[ ]
Off Branch Expenses	$1,090,553	[ ]

Assume All Revenues, Transportation and Off-Branch Costs Variable Per Carload, Other On Branch Costs Fixed

Assumed Carloads	Revenues	Total Costs	On Branch Transportation	On Branch Other	Off Branch	Profitability
1,000	$693,386	$3,457,839	$342,390	$2,912,102	$203,348	($2,764,453)
2,000	$1,386,773	$4,003,577	$684,780	$2,912,102	$406,695	($2,616,804)
3,000	$2,080,159	$4,549,314	$1,027,170	$2,912,102	$610,043	($2,469,155)
4,000	$2,773,546	$5,095,052	$1,369,560	$2,912,102	$813,391	($2,321,506)
5,000	$3,466,932	$5,640,790	$1,711,950	$2,912,102	$1,016,738	($2,173,858)
6,000	$4,160,318	$6,186,527	$2,054,340	$2,912,102	$1,220,086	($2,026,209)
7,000	$4,853,705	$6,732,265	$2,396,730	$2,912,102	$1,423,434	($1,878,560)
8,000	$5,547,091	$7,278,002	$2,739,120	$2,912,102	$1,626,781	($1,730,911)
9,000	$6,240,478	$7,823,740	$3,081,509	$2,912,102	$1,830,129	($1,583,262)
10,000	$6,933,864	$8,369,478	$3,423,899	$2,912,102	$2,033,477	($1,435,614)
11,000	$7,627,250	$8,915,215	$3,766,289	$2,912,102	$2,236,824	($1,287,965)
12,000	$8,320,637	$9,460,953	$4,108,679	$2,912,102	$2,440,172	($1,140,316)
13,000	$9,014,023	$10,006,690	$4,451,069	$2,912,102	$2,643,520	($992,667)
14,000	$9,707,409	$10,552,428	$4,793,459	$2,912,102	$2,846,867	($845,019)
15,000	$10,400,796	$11,098,166	$5,135,849	$2,912,102	$3,050,215	($697,370)
16,000	$11,094,182	$11,643,903	$5,478,239	$2,912,102	$3,253,563	($549,721)
17,000	$11,787,569	$12,189,641	$5,820,629	$2,912,102	$3,456,910	($402,072)
18,000	$12,480,955	$12,735,378	$6,163,019	$2,912,102	$3,660,258	($254,423)
19,000	$13,174,341	$13,281,116	$6,505,409	$2,912,102	$3,863,606	($106,775)
20,000	$13,867,728	$13,826,854	$6,847,799	$2,912,102	$4,066,953	$40,874

The Table 1 results are summarized and displayed graphically in Attachment 2.

Finally, the Shippers question the validity of the cost information and avoidable loss calculations set forth in my initial Verified Statement on the grounds that those calculations are "merely a post hoc allocation of certain systemwide revenues and costs to this line based on per mile of track." Shippers' Comments at 17. This criticism has no merit. As the Board knows, most short line railroads do not, in the normal course of business, maintain cost data at the same location-specific level of detail as Class I

carriers, nor are they required to file R-1 Annual Reports. Thus, it is not surprising that CORP was required to develop certain on-branch costs for the Abandonment Segment by allocating a portion of its systemwide costs for those cost categories to the Abandonment Segment. In fact, the Board's own abandonment regulations recognize that railroads in general and Class II and III railroads in particular likely do not maintain records in a manner that would permit the isolation of location or line specific costs and, as such, explicitly provide for allocations of both on and off-branch avoidable costs.[1]

Moreover, the Shippers' assertion that I allocated costs solely "based on per mile of track" (Shippers' Comments at 17) is incorrect. As stated in my prior Verified Statement, I allocated CORP's systemwide expenses to the Abandonment Segment using several allocation methods including route miles (*e g*, maintenance of way, depreciation, taxes); car or locomotive miles (*e g.*, maintenance of equipment), carloads (clerical, marketing) and loaded freight car miles (*e.g*, transportation, rolling stock costs). In each case. I explained the reasons why the allocation method used was the most appropriate for that particular expense category. The Shippers' Comments do not even acknowledge my use of these category-specific cost allocation methodologies, much less demonstrate that they are inappropriate or do not produce accurate cost estimates.

[1] 49 C F R §§ 1152 32 and 49 C F R §§ 1152 32(n)(4)

VERIFICATION

I, Michael R. Baranowski, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am authorized to file this verified statement.

Michael R. Baranowski

Executed on SEPTEMBER, 11, 2008.

1

Central Oregon & Pacific Railroad Company
Comparison of Forecast Year Exhibit 1 Results
With Forecast Year Financials Restated to Reflect 5,555 Annual Carloads
Branch name: Coos Bay

		Forecast Year	Forecast Year (5,555 Carloads)
Revenue for:			
1	Freight originated and/or terminated on-branch	$3,306,341	$3,424,711
2	Bridge traffic	$0	$0
3	All other revenue and income	$412,290	$427,050
4	Total attributable revenue (Sum Ln 1 through Ln 3)	$3,718,631	$3,851,761
Avoidable Costs for:			
5	On-branch costs (Lines 5a-5k)		
a	Maintenance of way & structures costs		
b	Maintenance of equipment		
c	**Transportation see note in H 11**		
d	General administrative		
e	Deadheading, taxi and hotel		
f	Overhead movement/other		
g	Freight car cost - non-ROI		
h	ROI expense freight cards		
i	ROI expense locomotives		
j	Revenue taxes		
k	Property taxes		
	Total on-branch costs (Sum Ln 5a through Ln 5k)	$4,748,339	$4,918,333
6	Off-branch Costs (Lines 6a-6d)		
a	Off-branch costs excluding freight car ROI		
b	Off-branch freight car ROI costs		
c	Off-branch URCS multiple car adjustment		
d	Make-whole adjustment off branch		
	Total off-branch costs (Sum Ln.6a through Ln 6d)	$1,090,553	$1,129,596
7	Total on & off-branch avoidable costs (L 5 + L6 Totals)	$5,838,892	$6,047,930
	Avoidable gain or (loss) from operations (L 4-L 7)	($2,120,261)	($2,196,168)
	Subsidization Costs for:		
8	Rehabilitation	$2,861,000	$2,861,000
9	Administrative costs (subsidy year only)	$0	$0
10	Casualty reserve account	$0	$0
11	Total subsidization cost (L 8+L 9+L 10)	$2,861,000	$2,861,000
	Return on value		
12	Valuation of road property		
a	Working capital	$183,477	$202,123
b	Income tax consequences	$0	$0
c	Net liquidation value (track, bridges & land)	$19,540,729	$19,540,729
	Total valuation of property (L 12a+b+c)	$19,724,206	$19,742,852
13a	Nominal rate of return	14 60%	14 60%
13b	Real rate of return	10 50%	10 50%
14	Nominal return on value (L 12*L 13a)	$2,879,734	$2,882,456
15	Holding gain or (loss)(L 12 c Col B* (L13a Col b-L13b Col b))	$801,170	$801,170
16	Total return on value (L 14-L 15)	$2,078,564	$2,081,287
17	Avoidable gain or (loss) from operations (L 4-L 7)	($2,120,261)	($2,196,168)
18	Estimated forecast year loss (L 4-L 7-L 16)	($4,198,825)	($4,277,455)
19	Estimated subsidy payment (L.4-L 7-L 11-L 14)	($7,860,995)	($7,939,625)

2

REDACTED

WILLIAMS

BEFORE THE
SURFACE TRANSPORTATION BOARD

Central Oregon & Pacific Railroad, Inc. – Abandonment and Discontinuation of Service – in Coos, Douglas, and Lane Counties, Oregon (Coos Bay Rail Line)	)	Docket No. AB-515 (Sub-No 2)

REBUTTAL VERIFIED STATEMENT OF JOHN H. WILLIAMS

My name is John H. Williams I am President of The Woodside Consulting Group, Inc , a firm that specializes in railroad transportation consulting. My business address is 385 Sherman Avenue, Suite 1, Palo Alto, California 94306. My qualifications and experience are set forth in the Verified Statement that I submitted in this proceeding on July 14, 2008 (my "Opening Verified Statement"). The purpose of this Rebuttal Verified Statement is to respond to certain issues raised by the Oregon International Port of Coos Bay ("Port"), the State of Oregon ("State"), and the Coos-Siskiyou Shippers' Coalition ("Shippers") in their Comments with regard to the proposed abandonment and discontinuance of service by the Central Oregon & Pacific Railroad, Inc ("CORP") over a portion of its Coos Bay Subdivision (the "Abandonment Segment")

Part I of my prior testimony demonstrated that rail traffic on the Abandonment Segment has declined in recent years I concluded that the downward trend in rail usage by most shippers in recent years made it unlikely that traffic on the Abandonment Segment will grow to a level that can sustain profitable operations by CORP in the foreseeable future Part II of my Opening Verified Statement showed that rail customers formerly served by the Coos Bay Subdivision have readily available transportation service alternatives involving either direct truck service or truck-rail transload service via one of several rail transload facilities The feasibility of those

alternatives is demonstrated by the fact that shippers are actually exercising such transportation options today I also estimated that the shift to direct truck service or truck-rail transload service will increase shippers' annual transportation costs by an average of approximately 11 percent.

The Port and the Shippers dispute the fact that the Abandonment Segment has experienced a downward trend in traffic *See* Port Comments at 7, Shipper Comments at 17, 26-27 Both the Port and the Shippers also assert that the increased transportation costs to Shippers resulting from the proposed abandonment (and the exercise of direct truck or truck-rail service options) are much higher than my estimate of an 11 percent increase. Port Comments at 11-12, Shipper Comments at 29-31 My Rebuttal Verified Statement will respond to these assertions.

I. RAIL TRAFFIC ON THE COOS BAY SUBDIVISION HAS BEEN DECLINING SINCE 2003.

In its Comments, the Port asserts that "[i]n actuality . . .traffic has been increasing on the Line." Port Comments at 6. The Shippers likewise claim that "the carloads have not exhibited a downward trend" during the 2005 -2007 period. Shippers Comments at 17, n. 33. These assertions are not consistent with the facts

Table 1 below, restated from my Opening Verified Statement, shows a substantial decline in carload volume on the Abandonment Segment from a high of 7,574 cars in 2003 to 4,773 cars in the Base Year (September 1, 2006 – August 31, 2007):

Table 1
Trends in Coos Bay Subdivision Carloads

2003	7,574
2004	5,408
2005	5,193
2006	5,363
2007	4,018; (through 09/21/07)

Base Year	4,773
Change, Base Year vs 2003	-37%
Change, Base Year vs 2004	-12%
Change, Base Year vs. 2005	-8%
Change, Base Year vs. 2006	-11%

The Port attempts to overcome these figures by suggesting that traffic for calendar year 2007 "would have been 5,555 cars for the year" if the line had not been embargoed on September 21, 2007. Port Comments at 7. According to the Port, actual traffic on the line prior to the embargo averaged 15 22 cars per day Based upon the assumption that traffic on the line would have averaged the same 15.22 cars per day throughout 2007 but for the embargo, the Port projects that the total volume in that year would have been 5,555 cars, or 192 cars greater than the actual traffic volume of 5,363 cars in 2006.

As an initial matter, the Port's speculation that rail traffic might have amounted to 5,555 cars in 2007 does not support its claim that "[i]n actuality" traffic has been increasing on the line Moreover, the inherent unreliability of the Port's projections is demonstrated by the fact that, utilizing a similar methodology based on an average of 446 cars per month, the Shippers assert that traffic on the Abandonment Segment in 2007 would have been 5,357 cars but for the embargo The Shippers' projected total is 198 carloads (or 4%) less than the Port's projection—indeed, it is slightly lower than the number of cars that actually moved in 2006.

Neither the Port's straight line days-of-the-year projection nor the Shippers' straight line months-of-the-year projection takes into account the seasonality of rail traffic. In consideration of traffic seasonality, the Board requires use of a "Base Year" (consisting of a consecutive 12-month period) in all abandonment applications. The Board should disregard the annual carload

projections offered by the Port and the Shippers, which do not even attempt to consider the effect of seasonality on traffic volumes (particularly during the winter months)

The carload totals in Table 1 for 2006 (5,363) and the Base Year (4,773) both include the months of September through December 2006. A comparison of these totals indicates that the traffic volume on the Line for the first eight months of 2007 was down by 590 cars from the volume of the first eight months of 2006—a clear indication of a downward trend in traffic on the Abandonment Segment from 2006 to 2007 Had the same trend reflected in the carload total for the first eight months of 2007 continued through the remaining four months of 2007 (absent the embargo), traffic volumes for calendar year 2007 clearly would have been lower than the "Base Year" volume of 4,773 carloads.

The suggestion by the Port and the Shippers that traffic on the Abandonment Segment is increasing is further undermined by the fact that the number of cars shipped by virtually every shipper on the line declined between 2005 and the Base Year Table 2, which replicates Attachment B to my Opening Verified Statement, demonstrates this trend clearly.

Table 2
Trends in Coos Bay Subdivision Traffic by Shipper

Customer Name	Year 2005	2006	2007	Base Year
AMERICAN BRIDGE MANUF. CORP				
AMERICAN LAMINATORS				
AMERIGAS				
COOS HEAD FOREST PRODUCTS				
D R JOHNSON LBR CO.				
DANISH DAIRY				
DOUGLAS CO FARM COOP (CENEX				
DOUGLAS COUNTY FOREST PROD				
DURAWOOD TREATING COMPANY				
FERRELL GAS, INC				
GEORGIA PACIFIC				
GRANGE COOP SUPPLY (CENEX)				
JOSEPH SIMON				
MAMMOET USA INC.				
MENASHA				
OCEAN TERMINALS COMPANY				
PORT OF COOS BAY				
ROSEBURG FOREST PRODUCTS				
SCHNITZER STEEL				
SOUTH COAST LUMBER COMPANY				
SOUTHPORT FOREST PRODUCTS				
STATON COMPANIES				
THOMAS & SONS TRANSPORT SYS				
WESTWOOD LUMBER				
WEYERHAUSER				
XINTERCHANGE CORP				
ALL OTHER				
Grand Total	5,193	5,363	4,018	4,773
Change, Base Year vs. 2005				-8%
Change, Base Year vs. 2006				-11%

Source. CORP Traffic Database; Attachment B from my Opening Verified Statement.

Note Where data fields for specific movements were missing in the CORP Traffic Database, I attributed those movements to customers, commodities, or stations based on the characteristics of similar movements

As Table 2 shows, Georgia Pacific Corporation, by far the largest shipper on the line, shipped [[ ]] cars during 2005, but only [[ ]] cars in 2006 and [[ ]] cars during the Base Year. The traffic of Roseburg Forest Products increased somewhat from [[ ]] cars to [[ ]] from 2005 to 2006, but declined to [[ ]] cars during the Base Year. Rail shipments by each of the other customers that shipped more than 100 cars in 2005 fell precipitously American Bridge Manufacturing Corporation's traffic declined from [[ ]] cars in 2005 to [[ ]] cars during 2006 and only [[ ]] cars during the Base Year. Durawood Treating Company's traffic declined from [[ ]] cars in 2005 to [[ ]] cars in 2006 and only [[ ]] cars during the Base Year Thomas & Sons, which shipped [[ ]] carloads in 2005, shipped only [[ ]] in each of 2006 and the Base Year Overall, the number of customers that shipped <u>any</u> traffic over the line declined from 19 in 2005 to only 11 in the Base Year. In other words, <u>the number of active shippers on the Abandonment Segment declined by 42% over that period</u>. As these figures graphically demonstrate, the Coos Bay Subdivision has experienced a substantial and ongoing decline in traffic across virtually all customers and commodities.

Furthermore, it does not appear likely that the Abandonment Segment can attract sufficient new business from other sources to offset these traffic losses. The two largest rail shippers on the Coos Bay Subdivision, Georgia Pacific and Roseburg Forest Products, collectively account for approximately 83 percent of all rail shipments moving over the line in the Base Year. Only one other customer (Southport Forest Products) currently ships more than [[ ]] carloads per year, also forest products Nor does the Coos Bay Subdivision enjoy significant traffic diversification from a commodity standpoint. To the contrary, lumber and forest products accounted for 97 percent of all traffic that moved over the Coos Bay Subdivision during the Base Year, and that business segment has been in a decline in recent years.

II. RAIL TRAFFIC HANDLED BY CORP VIA THE COOS BAY SUBDIVISION HAS BEEN SHIFTED TO TRUCK-DIRECT OR TRUCK-RAIL TRANSLOAD SERVICE.

In my Opening Verified Statement, I explained that the actions of shippers located along the Coos Bay Subdivision in response to the embargo of a portion of the line in September 2007 prove that viable transportation options are available for all of the traffic previously handled by CORP. My investigation found that shippers are either shipping (or receiving) their products directly by truck or are transloading their products between truck and rail at facilities located beyond the Coos Bay Subdivision. I also concluded that there is an adequate supply of trucks in CORP's service territory to absorb the traffic that previously moved over the Coos Bay Subdivision.

In their Comments, the Shippers acknowledge that they have been able to substitute truck-rail transload or truck-direct service for CORP's rail service, and no Shipper claimed that trucks were unavailable. Mr. Goodman, Group Manager – Western Lumber of Georgia-Pacific West, Inc., stated that, when the embargo went into effect, "the GP logistics team was able to quickly develop transportation alternatives – – predominantly rail service via a Eugene, OR area reload and additional motor carrier capacity . .." Shipper Comments at 42 (oral testimony of Goodman) (emphasis added) Mr. Fred Jacquot, Plant Manager of American Bridge Manufacturing, indicated that his compnay is "rail[ing] our incoming material to Portland, transload, and truck to Reedsport . . . ." Shipper Comments at 51-52 (oral testimony of Jacquot) Mr. Jason Smith, Operations Manager of Southport Forest Products, testified that Southport is currently "transload[ing] our lumber to reloads in the Willamette Valley." Shipper Comments at 47-48 (V S Smith at 3) Mr Ray Barbee, Vice President for Sales & Marketing of Roseburg

Forest Products, also testified that his company is utilizing trucking instead of rail Shipper Comments at 56-57 (V.S. Barbee at 3).

My field observations confirm that shippers are utilizing direct truck and/or truck-rail transload service, and that an adequate supply of trucks is available. During August 2008, I conducted a field review of the Coos Bay Subdivision Starting in Eugene, I drove the length of the Coos Bay Subdivision using SR126 and US101, both of which are reasonably good two-lane highways. From Coos Bay, I drove eastward on SR42 to Dillard and Roseburg.

At Eugene, the primary reload facility currently being utilized by former CORP shippers is A&M Reload, which competes with Cascade Reload located at Junction City, OR, just north and west of Eugene. A&M Reload is served by both UP direct and the Portland & Western and handles both forest products and aluminum The owner of A&M Reload told me that Roseburg Forest Products, Georgia-Pacific West and Durawood Treating Co. (also known as Coos Head Lumber Co. or Coos Bay Lumber Co) are all current customers of the A&M Reload facility. He also advised that forest products traffic in the area is off by some 50% overall and trucks are readily available A&M Reload has substantial excess capacity available to handle additional truck-rail transload traffic.

A large amount of trucking activity was apparent throughout the territory served by the Coos Bay Subdivision. At Georgia-Pacific West, in Coos Bay, I observed a large number of inbound privately owned log trucks, as well as outbound truckloads of wood chips and finished lumber. I also observed significant trucking activity at Durawood/Coos Head Lumber Co./Coos Bay Lumber Co in Reedsport and at the Southport Forest Products sawmill located about six miles south of Coos Bay. I observed loaded trucks that departed the Roseburg Forest Products

plywood mill located about 17 miles south of Coos Bay in Coquille and turned west onto Oregon SR42 toward Dillard.

Roseburg Forest Products has a large production facility at Dillard, in the I-5 Corridor about 61 miles from Coquille via SR42. The Dillard facility produces plywood, particleboard, specialty panels and other products. Sufficient capacity appears to exist within the "Plywood Plant" portion of the facility to handle the rail shipment of inbound plywood traffic arriving by truck from Coquille I observed both inbound and outbound trucks (with no truck delays) moving to and from the Plywood Plant truck dock and a large supply of rail cars at the rail loading dock

SR42, between Coos Bay, Coquille, Dillard and Roseburg, is an excellent highway, with wide lanes, good super-elevation and reasonably flat terrain through a series of river valleys. I observed sustantial forest products trucking activity (in both directions) on SR42 between Coquille and Dillard.

At four truckloads per rail car, the Base Year volume of 4,773 rail cars on the Abandonment Segment would require 19,092 annual truck movements It is my experience that trucks generally operate 365 days per year At a conservative estimate of 6 days per week of operations, or 312 days per year, however, an average of 61 trucks per day would be required to accommodate all of the rail traffic that formerly moved over the Abandonment Segment. There is no doubt that this relatively modest number of trucks is available today, and will be available in the future.

III. TRAFFIC PREVIOUSLY HANDLED VIA THE COOS BAY SUBDIVISION CAN BE SHIFTED TO TRUCK-DIRECT OR TRUCK-RAIL TRANSLOAD SERVICE AT REASONABLE COST.

The Port and the Shippers dispute my finding that the average increase in transportation costs to shippers resulting from the proposed abandonment is likely to be approximately 11 percent. For the reasons discussed in this Part of my Rebuttal Verified Statement, those criticisms have no validity.

As an initial matter, I find the Port's suggestion that my calculations are "highly suspect" (Port Comments at 11) puzzling, in light of the testimony of the President of the Port's Board of Commissioners, David Kronsteiner, at the public hearing held in Eugene, OR on August 21, 2008. In his testimony, Mr. Kronsteiner stated that "[t]ransportation costs for wood products moving to market [increased] in between 10 percent and 15 " August 21 Hr'g Tr. at 160 (Kronsteiner). Members of Oregon's Congressional delegation have likewise stated that ""[s]hippers on the line are now paying 10-15 percent more in shipping costs because they have to use trucks." *See* Finance Docket No 35160, *Oregon International Port of Coos Bay – Feeder Line Application*, Letter dated August 18, 2008 from Sen. Wyden, Sen. Smith and Rep. DeFazio to Hon. Anne Quinlan at 1. These estimates confirm the overall reasonableness of my conclusions.

The Shippers present verified statements or oral testimony from a number of former CORP customers purporting to show that my estimate of increased transportation costs is too low. However, as the following discussion of that testimony shows, my calculations are actually supported by the testimony of the largest shipper on the line, Georgia-Pacific West ("GPW"). Moreover, GPW's estimate of the cost of exercising the truck-rail transload option demonstrates that the estimates offered by other forest products shippers are wildly inflated

Georgia-Pacific West

GPW is by far the largest shipper on the Abandonment Segment, with [[ ]] cars during the Base Year. *See* Table 2 above. Mr. Bill Goodman, GPW's Group Manager – Western Lumber, states that the embargo of the Coos Bay Subdivision has increased the transportation costs for GPW's traffic (including both inbound shipments of logs and outbound shipments of wood chips and lumber) by approximately $2.05 million per year at current production levels. Shipper Comments, Oral Testimony of Goodman at 2. For the [[ ]] carloads shipped by GPW in the Base Year, Mr Goodman's $2.05 million estimate amounts to an increase of approximately [[ ]] per carload Mr. Goodman indicates that this represents a cost increase of between 17 and 21 percent. *Id.* In my Opening Verified Statement, I estimated GPW's annual cost increase at $2 3 million, an increase of approximately 24 percent. *See* V.S. Williams, Attachment F. Based upon my analysis, Mr. Goodman's estimate seems to be reasonable Conversely, Mr. Goodman's estimate confirms the reasonableness of the estimate of increased transportation costs generated by the methodology that I employed in my Opening Verified Statement—indeed, Mr Goodman's testimony suggests that my estimate is somewhat conservative.

Southport Forest Products

Southport Forest Products ("Southport") ships lumber from a facility located on the so-called North Spit spur line near Coos Bay, OR. According to Mr Smith, Southport's Operations Manager, as a result of the embargo of the Abandonment Segment, Southport is currently paying an additional $70,000 per month in transportation expenses to transload lumber to reloads in the

Willamette Valley. Shipper Comments, V.S. Smith at 3. Mr Smith does not give any indication of how he arrived at this estimate, nor does he indicate the number of rail carloads, transload location or methodology upon which his estimate was based. However, it is readily apparent that Mr. Smith's estimate is highly inflated

Mr. Smith's estimated additional cost of $70,000 per month represents an annual increase of $840,000 per year. Applied to the [[ ]] carloads that Southport shipped via CORP during the Base Year (see Table 2 above), this would indicate an increased cost of approximately [[ ]] per rail carload. This amount is unreasonably high, particularly when compared to the testimony of GPW's Mr. Goodman, who testified that GPW is shipping its forest products from Coos Bay via a truck-rail transload at Eugene for only [[ ]] per rail carload. Mr Smith does not explain why truck-rail transload service to/from the very same station (Coos Bay) as GPW would cost Southport more than 3.5 times as much as GPW. In light of GPW's testimony, and my own well-documented analysis of the cost of truck-rail service to/from Coos Bay via Eugene, it is clear that Southport's estimate of increased transportation costs is greatly exaggerated.

Roseburg Forest Products

Roseburg Forest Products' estimate of increased transportation costs was presented by Mr. Ray Barbee, Vice President for Sales & Marketing. *See* Shipper Comments, V.S. Barbee Mr. Barbee asserts that Roseburg's "Transportation and Logistics Director" estimated that "the annual financial impact of the closure of the Coos Bay Line has resulted in an additional $208,000 to $250,000 per month ($2.5 to $3.0 Million/year) in hard transportation costs due to trucking instead of rail." *Id.* Mr Barbee does not give any indication of how Roseburg arrived at this estimate, nor does he indicate the number of rail carloads, transload location or

methodology upon which his estimate was based. However, in light of known facts, it is readily apparent that Mr. Barbee's estimate is grossly inflated.

Applied to the [[ ]] carloads that Roseburg shipped via CORP during the Base Year (see Table 2 above), Mr. Barbee's estimate of $2.5 - $3.0 million in annual increased transportation costs would amount to an increased cost of [[ ]] per carload This amount is simply not credible when viewed in relation to other testimony and evidence For example, Mr. Barbee's estimate is 3.5 to 4 0 times the estimate of [[ ]] per carload presented by GPW's Mr. Goodman This disparity calls the accuracy of Roseburg's estimate into question, especially considering the fact that a truck-rail transload movment from Roseburg's Coquille facility via Dillard involves a truck movement of only 61 miles, or slightly more than half of the truck distance involved in GPW's transload shipments from Coos Bay via Eugene.

More fundamentally, Roseburg's estimate is simply not credible when one considers the substantially lower cost of shipping forest products by rail from Dillard as compared to Coquille As explained in my Opening Verified Statement, my analysis was based upon rail rate quotations published on UP's website for shipments to and from points on the Coos Bay Subdivision, the Willamette Valley, and CORP's Siskiyou Line (I confirmed with UP that all of those rate quotatons were valid and represented the rates that shippers would pay for service to/from points on the Coos Bay Subdivision today but for the embargo.) As my prior testimony showed, UP's rail rates for service from Dillard are between $2,100 and $2,700 per carload lower than the corresponding rates for service from Coquille for much of Roseburg's Coquille traffic. This differential is illustrated in Attachment JHW Rebuttal-1. That Attachment, which reproduces Lines 50 and 62 of Attachment F to my Opening Verified Statement, shows the UP rates for shipments of plywood to Chicago and Memphis, respectively, from both Coquille and

Dillard, OR. For example, the UP rate from Coquille to Chicago is $7,833 per carload and, with the applicable fuel surcharge, the total cost of shipping from a Coquille origin is $8,830 per carload By contrast, the UP rate from Dillard to Chicago is $5,654 per carload; with the fuel surcharge, the total rate is $6,651 per carload. *See* Attachments JHW Rebuttal -2 and JHW Rebuttal -3 Thus, the cost to Roseburg of the rail segment of a truck-rail shipment from Coquille via Dillard to Chicago is $2,179 less than the cost of direct rail service from Coquille. Likewise, Attachment JHW Rebuttal-1 shows that the cost to Roseburg of the rail segment of a truck-rail shipment from Coquille via Dillard to Memphis is $2,725 less than the cost of direct rail service from Coquille.

In order for the total additional cost to Roseburg of truck-rail transload service via Dillard to Chicago to be [[ ]] per carload, as Mr. Barbee claims, the combined cost of trucking shipments from Coquille to Dillard and transloading plywood from trucks to rail cars at Dillard would have to be at least [[ ]] per carload ([[ ]] + the rail rate saving of $2,179 per carload). Based upon an assumed four trucks per carload, this translates into a cost of [[ ]] per truckload for a 61-mile movement, or [[_____]] For the Memphis movement, the combined cost of trucking shipments from Coquille to Dillard and transloading plywood from trucks to rail cars at Dillard would have to be at least [[ ]] per carload ([[ ]] + the rail rate saving of $2,725 per carload). Based upon an assumed four trucks per carload, this translates into a cost of [[ ]] per truckload, or [[_____]] These trucking costs are simply not credible. As my Opening Verified Statement indicates, a more reasonable estimate of truck costs is in the range of $3.48 to $3 90 per loaded mile V.S Williams at 12

In short, Roseburg's estimate of its increased transportation costs is, on its face, highly inflated.

American Bridge Manufacturing

American Bridge's estimate of increased transportation costs was provided by Mr. Fred Jacquot, Plant Manager. American Bridge estimated that inbound raw material that was costing $0.058 per pound prior to closure of the Line is now costing $0.09 per pound Shipper Comments, Oral Testimony of Jacquot at 3. Once again, Mr. Jacquot did not offer any indication as to how he arrived at this estimate, nor did he indicate the number of rail carloads or methodology upon which his estimate was based. In my Opening Verified Statement (Attachment F, Line No 97), I estimated the increased transportation costs to American Bridge at $51,800 for [[ ]] inbound carloads. My estimate was based on Portland as the reload point and truck service to Reedsport, the pattern confirmed in Mr. Jacquot's Testimony. Shipper Comments, Oral Testimony of Jacquot at 3. My estimate of the increased cost averages [[ ]] per carload. The application of Mr. Jacquot's cost differential of $0.032 per pound to the same [[ ]] inbound carloads produces an estimate of [[ ]] per carload, or [[ ]] in total increased cost. This is approximately double the estimate contained in my Opening Verified Statement (Attachment F. Line 97). American Bridge's all-rail rate at "2008 Cost Levels" is [[ ]] per carload Considering that truck costs from Portland to Reedsport were only [[ ]] per carload (as shown in the workpapers for the Opening Verified Statement, Attachment F), American Bridge's projected cost increase of [[ ]] per carload is not reasonable

* * * * *

The Port questions the validity of my analysis on two other grounds:

First, the Port challenges my calculations simply because I concluded that, for two shippers (Roseburg and Danish Dairy), the cost of truck-rail service is likely to be less than direct rail service. Port Comments at 11. According to the Port, "on their face, these numbers appear incorrect because a shipper surely would have used the truck-rail combination (and avoided CORP altogether) prior to the embargo if it were so much less expensive." Port Comments at 11-12. This unsupported assertion is not valid

All but [[ ]] of the cars for which I concluded that the cost of truck-rail transload service is likely to be lower are cars shipped by Roseburg to/from its facility at Coquille. *See* V S Williams, Attachment F. (The remaining [[ ]] cars are inbound shipments of grain to Danish Dairy at Coos Bay *See* V.S. Williams, Attachment F, Line 91.) As explained above, the lower overall cost for Roseburg can be attributed to the very substantial differential in UP's rate quotations for rail service from Dillard versus Coquille, and the relatively short truck distance (61 miles) involved in the transload movement. The result for Danish Dairy would appear to attributable to similar factors—a lower UP rail rate to Dillard, combined with a relatively short truck movement from Green, OR to Coos Bay

Moreover, I strongly disagree with the Port's presumption that a shipper will, in every instance, discontinue its use of rail service simply because a lower cost alternative may be available. For example, Roseburg is the only active shipper on CORP's rail line south of Coos Bay. Absent a continuing flow of rail traffic from Coquille, CORP would undoubtedly have abandoned the 16.9-mile segment between Coos Bay and Coquille Thus, if continued rail service to the Coquille facility were important to Roseburg—as its active participation in this

proceeding suggests—Roseburg would have had a strong incentive to continue to utilize CORP's rail service even if it might have been able to save money by switching to a truck-rail transload operation via Dillard Indeed, in my experience it is not at all unusual for a rail shipper to exercise a higher cost transportation alternative in order to preserve a competitive option

Second, the Port argues that "the Williams calculations are also suspect because the traffic volumes per shipper are quite different from what CORP says elsewhere in the Application." Port Comments at 12. This criticism ignores the fact – which was plainly stated in my Opening Verified Statement (at 9) – that the analysis set forth in Attachment F was based in part on the Board's 2006 *Carload Waybill Sample* (supplemented with traffic records from CORP's database for shipments that did not appear in the *Carload Waybill Sample).* As I explained, because CORP does not, in the normal course of business, track the ultimate origin or destination point beyond CORP's lines of traffic that it handles for UP's account, I was required to determine the ultimate origin (or destination, as applicable) by referring to the *Carload Waybill Sample.* Because the *Carload Waybill Sample* does not purport to be a complete record of all rail shipments, the carload totals reflected in the *Carload Waybill Sample* are somewhat different from the Base Year carload volumes by shipper shown in Attachment B of my Opening Verified Statement (see Table 2)

However, the slight discrepancy between the carload totals in the *Carload Waybill Sample* and in CORP's internal traffic records has no effect whatsoever on my calculation of the percent increase in transportation costs that shippers would experience as a result of the proposed abandonment. My analysis calculated the difference in the cost of shipping a single carload of traffic via direct CORP rail service, as compared to the cost of shipping that same carload of freight by truck to a rail reload center (in most cases, at Eugene or Dillard, OR) and transloading

it into a rail car for movement beyond CORP's lines That calculation is not dependent in any way upon the total number of carloads involved in a particular origin-destination movement – the percent increase (or decrease) in transportation costs per carload is the same for each car.

VERIFICATION

I, John H. Williams, declare under penalty of perjury that the foregoing is true and correct.

Further, I certify that I am qualified to file this verified statement.

John H. Williams

Executed on September 9, 2008

1

REDACTED

2

Attachment JHW Rebuttal – 2

UPRR 9001	Item: 1057-F IP BOX FROM OR COASTAL UPG

CHANGE KEY. A-Add; C-Change; D-Decrease, I-Increase; and X-Expire

For billing purposes use the following rate authority:,UPRR·9001·1057-F

STCC/GROUP	STCC	DESCRIPTION
C IP STCC BOX		
	01129	Raw Cotton,Nec
	01193	Leaf Tobacco
	08422	Barks Or Gums,Crude Exc Latex Or Allied Gums (Crude Rubber) See 08423
	08423	Latex Gums (Crude Natural Rubber) Or Allied Gums
	08611	Christmas Trees Exc Artificial See 39621
	08612	Decorative Evergreens,Holly Or Mistletoe Exc Artificial See 39621
	08619	Forest Products,Nec,Or Tree Seeds, Inedible Exc Oil Seeds See 01141-01149
	10111	Iron Direct-Shipping Ores,Crude
	10112	Iron Beneficiating-Grade Ores,Crude,Or Iron Ores To Processing Or Beneficiating Plants
	10113	Iron Concentrates Or Agglomerates
	10211	Crude Copper Ores
	10212	Copper Concentrates Or Precipitates
	10311	Crude Lead Ores
	10321	Crude Zinc Ores
	10322	Zinc Concentrates
	10411	Crude Gold Ore Or Tailings
	10511	Crude Bauxite Ores
	10513	Calcined Or Activated Bauxite Ores
	10514	Aluminum Ores Exc Bauxite See 10511 And 10513
	10611	Manganese Direct-Shipping Ores,Crude
	10612	Manganese Beneficiating-Grade Ore,Crude
	10613	Manganese Concentrates Or Agglomerates
	10711	Crude Tungsten Ores
	10712	Tungsten Concentrates
	10811	Crude Chromium Ores
	10923	Radio-Active Ores (Uranium,Radium,Etc)
	10929	Miscellaneous Metal Ores,Nec
	14111	Dimension Stone,Quarry Exc Dressed,Polished,Shaped Or Other- Wise Finished See 32811-32819
	14211	Agricultural Limestone,Broken Or Crushed Exc Ground Or Otherwise Treated,See 32959
	14212	Fluxing Limestone Or Stone,Broken Or Crushed
	14213	Dolomite,Broken Or Crushed
	14219	Broken Or Crushed Stone Or Riprap,Nec Exc Ground Or Otherwise Treated, See 32951-32959
	14411	Sand (Aggregate Or Ballast) Exc Abrasive See 14916
	14412	Gravel (Aggregate Or Ballast)
	14413	Industrial Sand,Crude,Ground Or Pulverized Exc Abrasive See 14916 Or Treated, Other Than Ground Or Pulverized See 32952
	14511	Bentonite,Crude Exc Ground Or Otherwise Treated See 32952
	14512	Fire Clay,Crude Exc Ground Or Otherwise Treated See 32952
	14513	Fullers Earth,Crude Exc Ground Or Otherwise Treated See 32952
	14514	Ball Or Kaolin Clay,Crude Exc Ground Or Otherwise Treated See 32952
	14515	Feldspar,Crude Exc Ground Or Otherwise Treated See 32955

STCC/GROUP	STCC	DESCRIPTION
	14516	Brucite Or Magnesite,Crude Exc Ground Or Otherwise Treated See 32953 Or 32959
	14519	Ceramic Or Clay Minerals,Nec,Crude Exc Ground Or Otherwise Treated See 32951-32959
	14711	Barite (Barytes),Crude (Heavy Spar Or Tiff) Exc Ground Or Otherwise Treated See 32959
	14712	Fluorspar (Fluorite Or Florspar),Crude Exc Ground Or Otherwise Treated See 32959
	14715	Rock Salt,Crude,Crushed,Lump Or Screened Exc Sodium Chloride (Common Salt),See 28991
	14911	Anhydrite Or Gypsum,Crude Exc Ground Or Otherwise Treated At Other Than Mine Site See 32956
	14912	Mica,Crude Exc Ground Or Otherwise Treated See 32957
	14913	Native Asphalt Or Bitumens
	14914	Pumice Or Pumicite,Crude Exc Ground Or Otherwise Treated See 32959
	14915	Pyrophyllite,Soapstone Or Talc,Crude Exc Ground Or Otherwise Treated See 32954
	14916	Natural Abrasives,Flour Or Sized Grains, Or Powders Exc Industrial Diamond Abrasives See 32912,Or Sand See 14411-14413
	14917	Peat,Natural Exc Ground Or Otherwise Treated See 32959
	14918	Diatomaceous Or Infusorial Earth,Crude Exc Ground Or Otherwise Treated At Other Than Mine Site See 32952 Or 32959,Or Fullers Earth See 14513
	14919	Nonmetallic Minerals,Nec,Loam,Soil Or Top Soil,Nec Exc Ground Or Otherwise Treated At Other Than Mine Site See 32951- 32959,Or Fuels See 11111-11221 Or 29911,29913 Or 29914
	20258	Casein Products
	20259	Special Dairy Products Or By-Products, Nec
	20915	Cotton Linters Or Regins
	22111	Cotton Duck Or Allied Fabrics
	22112	Cotton Sheetings,Unfinished (Gray Goods) Or Other Allied Products
	22113	Cotton Or Chiefly Cotton Blankets
	22119	Cotton Broad-Woven Fabrics,Nec,Finished, Or Cotton Broad-Woven Specialties Exc Carpets,Mats Or Rugs See 22711 Or 22721,Or Tire Cord Or Fabrics See 22961
	22211	Man-Made Or Glass Fibre Broad-Woven Fabrics Exc Carpets,Mats Or Rugs See 22711 Or 22721,Or Tire Cord Or Fabrics See 22961
	22213	Man-Made Fibre Blankets,Including Chiefly Man-Made Fibre
	22311	Wool Broad-Woven Fabrics,Including Dyed Or Finished Exc Carpets,Mats Or Rugs See 22711 Or 22721,Or Blankets See 22313
	22313	Wool Or Chiefly Wool Blankets
	22411	Narrow Fabrics,Cotton,Silk Or Wool,Or Glass Or Other Man-Made Fibres
	22511	Knit Fabrics
	22711	Woven Carpets,Mats Or Rugs,Textile Yard
	22721	Tufted Carpets,Rugs Or Mats,Textile Fibre
	22811	Cotton Yarn
	22813	Wool Thread Or Yarn
	22819	Yarn,Nec Exc Hemp,Jute,Linen Or Ramie
	22841	Thread Exc Hemp,Jute,Linen Or Ramie See 22999 Or Wool See 22813
	22911	Felt Goods Exc Felt Hats See 23511 Or 23521,Or Woven Wool Felts Or Wool Haircloth See 22311
	22921	Lace Goods,Including Dyed Or Finished Exc Embroideries See 23951
	22931	Paddings,Upholstery Fillings,Batting Or Wadding Exc Expanded Plastics See 30716,Foam Or Sponge Rubber See 30613 Or Wood Excelsior Pads Or Wrappers See 24294
	22941	Textile Waste,Garnetted,Processed Or Recovered Fibres Or Flock Exc Packing Or Wiping Cloths Or Rags See 22994
	22951	Artificial Leather,Oilcloth Or Other Coated Or Impregnated Fabrics, Including Finished,Such As Laminated, Metalized,Varnished,Waterproofed, Waxed,Etc Exc Rubberized See 30619
	22961	Cord Or Fabrics,Tire,Fuel Cell,Industri- Al Belting Or For Similar Uses
	22971	Wool Or Mohair,Carbonized Or Scoured
	22972	Tops,All Fibres,Processed,Combed Or Converted

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	22973	Textile Fibres,Laps,Noils,Nubs,Roving, Sliver Or Slubs,Prepared For Spinning, Combed Or Converted
	22974	Wool Or Mohair Grease
	22981	Cordage Or Twine
	22991	Bonded Fibre Fabrics Exc Felts,Woven See 22311 Or Unwoven See 22911
	22992	Jute Goods Exc Bags See 23931
	22994	Packing Or Wiping Cloths Or Rags (Processed Textile Wastes)
	22995	Vegetable Fibres Exc Cotton See 20915 Or 22999
	22999	Textile Goods,Nec
	23111	Mens,Youths Or Boys Clothing Or Uniforms Exc Leather Or Sheep Lined See 23861 Or Raincoats See 23851
	23311	Womens,Misses,Childrens Or Infants Clothing Exc Fur See 23711,Raincoats See 23851 Or Surgical See 38421
	23511	Millinery Exc Braids Or Trimmings See 23961 Or Fur See 23711
	23521	Caps Or Hats Or Hat Bodies Exc Fur See 23711 Or Millinery See 23511
	23711	Fur Goods Exc Sheep Lined Clothing See 23861
	23811	Dress Gloves,Mittens Or Linings Exc All Leather See 31511,Plastic See 30719 Or Fur See 23711
	23812	Work Gloves Or Mittens Exc Asbestos See 32929,All Leather See 31511,Plastic See 30719 Or Rubber See 30619
	23841	Robes Or Dressing Gowns Exc Childrens Or Infants See 23311
	23851	Raincoats Or Other Waterproof Outer Garments Exc Oiled Fabric See 23111 Or Vulcan- Ized Rubber See 30619
	23861	Leather Or Sheep Lined Clothing Exc.Leather Gloves Or Mittens See 31511, Fur Garments See 23711
	23871	Apparel Belts
	23891	Apparel,Nec
	23911	Window Curtains Exc Lace See 22921
	23912	Draperies Or Tapestries
	23921	Bedspreads Or Bed Sets Exc Embroidered See 23951 Or Lace See 22921
	23922	Sheets Or Pillowcases Exc Embroidered See 23951
	23923	Towels Or Washcloths Exc Embroidered See 23951
	23924	Tablecloths Or Napkins Or Related Articles Exc Embroidered See 23951 Or Lace See 22921
	23925	Pillows
	23926	Mops Or Dusters
	23927	Slip Covers Exc Embroidered See 239511
	23928	Comforters Or Quilts Exc Embroidered See 23951
	23929	Textile Housefurnishings,Nec Exc Embroidered See 23951 Or Lace See 22921
	23931	Textile Bags Exc Garment Or Laundry See 23929 Or Plastic See 26431
	23941	Tents
	23942	Awnings Or Shades
	23943	Tarpaulins
	23944	Sails
	23949	Canvas Products,Nec Exc Bags See 23931
	23951	Textile Products,Pleated Or Quilted,In- Cluding Embroidered,Decorative Or Novelty Stitched,Or Ruffled Or Tucked
	23961	Apparel Findings,Textile,Or Related Products,Or Automotive Trimmings
	23991	Automobile Seat Covers
	23993	Sleeping Bags
	23994	Parachutes
	23999	Fabricated Textile Products,Nec
	24111	Sawlogs
	24112	Hewn Railroad Or Mine Ties
	24114	Pulpwood Logs
	24115	Pulpwood Or Other Wood Chips
	24116	Wood Posts, Poles Or Piling
	24117	Fuelwood, Hogfuel Or Cordwood
	24118	Wood Mine Props Or Mine Timbers
	24119	Primary Forest Or Wood Raw Materials,Nec Exc From Sawmills See 24211-24299,From Plywood Or Veneer Mills See 24321, From Pulp Mills See 26111 Or From Charcoal Or Wood Distillation Plants See 28612
	24211	Lumber,Rough Or Dressed,Or Softwood Cut Stock Or Flooring

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	24212	Sawed Ties (Railroad, Mine, Etc)
	24214	Hardwood Dimension Stock Or Furniture Parts Or Vehicle Stock
	24215	Hardwood Flooring
	24219	Lumber Or Dimension Stock,Nec
	24291	Shingles
	24293	Shavings Or Sawdust
	24299	Sawmill Or Planing Mill Products,Nec Exc Box Springs Or Boxes See 24416, Millwork See 24311-24319,Plywood Or Veneer See 24321 Or Textile Machinery Wood Shapes Or Turnings See 35522
	24314	Doors Or Shutters Or Door Units,Wood
	24316	Wood Mouldings
	24319	Millwork,Nec,Or Cabinetwork,To Be Built In Exc Metal Covered See 34421-34425 Or Prefabricated Structural Wood Products See 24332-24391
	24321	Plywood Or Veneer Or Built-Up Wood Exc Plywood Or Veneer Containers See 24411-24414,Hardboard See 24993 Or Wood Particle Board See 24996
	24333	Ready-Cut Wood Buildings Or Panels Or Sections For Prefabricated Buildings
	24341	Kitchen Cabinets,Wood
	24391	Prefabricated Structural Members Or Wood Laminates
	24411	Boxes,Cases,Crates Or Carriers Exc Animal Or Poultry
	24414	Baskets Or Hampers Exc Ambulance Or Undertaker See 39941, Bait Or Fish See 39491,Fruit Or Vegetable See 24413 Or Toy See 39411
	24415	Cooperage
	24419	Wooden Containers,Nec,Or Container Accessories,Nec
	24911	Wood Piling,Posts,Props Or Timbers,Etc , Creosoted,Or Treated With Other Preservatives
	24912	Ties,Mine,Railroad,Etc ,Creosoted,Or Treated With Other Preservatives
	24913	Lumber,Creosoted Or Treated With Other Preservatives
	24914	Plywood,Veneer Or Built-Up Wood,Creosot- Ed Or Treated With Other Preservatives
	24919	Treated Wood Products,Nec,Creosoted,Or Treated With Other Preservatives
	24921	Rattan, Bamboo Or Willow Ware Exc Furniture See 25,Baskets Or Hampers See 24413 Or 24414
	24931	Lasts Or Related Products, All Materials
	24941	Cork Products
	24951	Hand Tool Handles
	24961	Scaffolding Equipment
	24962	Ladders Or Ladder Parts
	24971	Wooden Ware
	24972	Wooden Novelties Or Flatware
	24981	Poles, Rods Or Stakes, Finished
	24982	Billboards Or Sign Frames Or Related Articles
	24983	Seats,Bathtub Or Toilet,Or Laundry Tub Covers,Radiator Covers Or Guards,Sink Drain Boards Or Related Articles
	24985	Bottle Stoppers,Ice Cream Sticks,Paint Paddles Or Pencil Slats
	24987	Quilting Frames Or Curtain Stretchers
	24988	Boards Or Tables, Ironing
	24991	Oriented Strand Board
	24992	Skids,Pallets Or Platforms Exc Metal See 35373
	24993	Hardboard
	24994	Masts,Spars Or Oars,Wooden,Or Related Boat Accessories
	24995	Pipe,Conduit,Or Fittings,Wooden
	24996	Wood Particle Board
	24997	Fencing Or Gates,Wood
	24998	Wood Reels Or Spools Exc Textile Machinery Spools See 35522
	24999	Wood Products,Nec Exc Containers See 24411-24414 Or 24419
	25111	Benches,Chairs,Rockers Or Stools,House- Hold Or Office Exc.Concrete See 32719,Stone See 32819 Or Terra Cotta See 32699
	25121	Tables Or Desks,Household Or Office Exc Concrete See 32719,Stone See 32819 Or Terra Cotta See 32699
	25131	Davenports,Sofas,Couches,Love Seats Or Settees,Household Or Office
	25141	Buffets,Servers,China Or Corner Closets, Household

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	25151	Bed Or Box Springs,Or Mattresses,Or Assembled Springs Or Spring Cushions Exc Auto Seats Or Backs See 25312 Or Padding Or Upholstery Fillings See 22931
	25153	Chair Or Sofa Beds,Or Studio Couches,Or Convertible Sofas
	25161	Beds,Dressers,Chests Of Drawers Or Vanities,Household Or Office Exc Hospital Beds See 25991
	25171	Radio, Phonograph Or Television Cabinets
	25173	Filing Cabinets Or Cases
	25174	Kitchen Cabinets Exc Wood See 24341
	25179	Cabinets,Nec,Or Cases,Nec,Household Or Office Exc China Cabinets See 25141,Display Cases See 25411 Or 25421,Or Kit- Chen Cabinets See 24341 Or 25174
	25181	Infants Or Childrens Furniture
	25199	Household Or Office Furniture,Nec Exc Concrete See 32719,Stone See 32819 Or Terra Cotta See 32699
	25311	School Furniture
	25314	Seats,Auditorium,Bleacher,Circus,Stadium Or Theatre
	25319	Public Building Furniture,Nec Exc Concrete See 32719,Stone See 32819 Or Terra Cotta See 32699
	25411	Wood Lockers,Partitions Or Shelving Or Office Or Store Fixtures Exc Refrigerated Cabinets,Cases Or Lockers See 35853
	25421	Metal Lockers,Partitions Or Shelving Or Office Or Store Fixtures Exc Refrigerated Cabinets,Cases Or Lockers See 35853,Or Safes Or Vaults See 34921
	2551535	Pallets, Platforms Or Skids, Paper Or Pulpwood, Separate Or Combined With Other Than Cellular, Expanded Or Foamed Plastic Or Wood
	25911	Venetian Blinds,Shades,Awnings,Curtain Rods Or Accessories Exc Canvas Awnings Or Shades See 23942
	25999	Furniture Or Fixtures,Nec,Or Restaurant Furniture Exc Table Arm Chairs See 25311,Dental, Hospital,Operating Room Or Optici- Ans See 38412,Hospital Beds See 25991,Concrete See 32719,Stone See 32819 Or Terra Cotta See 32699
	26111	Pulp
	26112	Pulp Mill By-Products
	26211	Newsprint
	26212	Ground Wood Paper, Uncoated
	26213	Printing Paper,Coated Or Uncoated, Coated Groundwood Paper,Groundwood Paper Containing Less Than 60 Percent Groundwood,Coated Or Uncoated,Or Writing Paper
	26214	Wrapping Paper,Wrappers,Or Coarse Paper
	26217	Special Industrial Paper Or Paper Car Liners
	26218	Sanitary Tissue Stock
	26219	Paper,Nec Exc Building Paper See 26611-26619
	26311	Fibreboard,Paperboard Or Pulpboard Exc Building Insulating Board See 26611-26619
	26421	Envelopes Exc Stationery See 26491
	26431	Paper Bags
	26441	Wallpaper
	26451	Office Supplies
	26452	Coated Paperboard
	26453	Closures, For Bottles, Cans Or Jars Viz Caps, Covers, Tops, Etc
	26459	Die-Cut Paper Products,Nec,Or Paperboard Products Or Cardboard,Nec
	26461	Bituminous Fibre Pipe,Sewer Or Drainage Or Conduit Or Fittings
	26462	Egg Cartons, Cases Or Related Articles
	26469	Pressed Or Molded Pulp Goods, N E C
	26471	Sanitary Tissues Or Health Products
	26472	Sanitary Or Cotton Sanitary Napkins Or Tampons
	26491	Stationery Or Stationery Envelopes, Tablets Or Related Articles
	26492	Wrapping Products (Gift Wrap, Etc)
	26495	Business Machine Supplies
	26497	Packing Cushions,Covers,Liners Or Related Articles
	26499	Converted Paper Products,Nec,Or Paperboard Products,Nec
	26511	Containers Or Boxes,Paperboard, Fibreboard Or Pulpboard Exc Butter,Frozen Food,Ice Cream Or Margarine Boxes Or Containers See 26542-26549

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	26514	Baskets,Hampers Or Till Boxes,Paperboard Or Fibreboard
	26515	Pallets, Skids Or Platforms, Paperboard
	26542	Bottles Or Cartons Or Other Liquid-Tight Food Containers
	26543	Paper,Fibreboard,Paperboard Or Pulpboard Cans,Covers,Cups,Pails,Straws Or Tubs
	26545	Paper Plates,Dishes,Forks,Spoons Or Related Articles
	26549	Sanitary Food Containers,Nec
	26551	Fibre Cans,Drums Or Tubes Or Similar Products Exc Sanitary Food Containers See 26542-26549
	26611	Insulating Board
	26612	Construction Paper
	26615	Construction Panels,Partitions,Siding Or Forms
	26619	Building Paper Or Building Board,Nec
	27111	Newspapers
	27211	Periodicals
	27311	Books
	27411	Catalogues,Directories,Business Service Publications Or Advertising Materials
	27415	Cards Or Tickets Exc.Greeting Cards See 27711
	27417	Labels,Seals,Tags Or Wrappers Exc Government Stamp See 27419 Or Greeting See 27711
	27419	Printed Matter,Nec,Or Blueprints, Building Plans Or Commercial Designs
	27611	Manifold Business Forms
	27711	Greeting Cards,Seals,Labels Or Tags
	27811	Blankbooks,Pads Or Tablets
	27812	Loose Leaf Binders Or Devices
	27911	Service Industries For Printing Trades, Including Electrotype,Engravers,Litho-Graphic Or Stereotype Plates,Shells, Blocks Or Bars
	2812629	Calcium Carbide
	2819530	Iron Sulphate (Ferrous Sulphate) (Copperas)
	2819656	Aluminum Sulphate (Sulphate Of Alumina), Or Paper Makers Alum, Dry
	2821220	Rubber, Artificial, Neo- Prene Or Synthetic, Crude, Other Than In Pellet Or Powder Form
	2821221	Crude Synthetic Rubber In Pellet Or Powder Form
	2871446	Manganese Sulphate, Fertilizer Grade
	28996	Blacks
	2952	Asphalt Coatings Or Felts Or Roofing Cements Exc Paint See 2851 Or Linoleum Or Tile Cement See 2891
	30111	Rubber Pneumatic Tires Or Parts
	30114	Rubber Inner Tubes
	30115	Tread Rubber Or Rubber Tire Sundries Or Repair Materials
	30119	Rubber Tires Or Related Products,Nec
	30411	Rubber Or Plastic Belts Or Belting
	30412	Rubber Or Plastic Hose
	30613	Sponge Or Foam Rubber Goods
	30614	Rubber Floor Or Wall Coverings
	30618	Fabricated Rubber Products,Nec Exc Elastic Webbing See 22411,Elastic Webbing Products Or Rubberized Fabric Garments See 23,Synthetic Rubbers See 28212,Rubber Cement See 28911,Rubber Packing See 32932,Rubber Belting See 30411 Or Rubber Hose See 30412
	30619	Fabricated Rubber Products,Nec Exc.Elastic Webbing See 22411,Elastic Webbing Products Or Rubberized Fabric Garments See 23,Synthetic Rubbers See 28212,Rubber Cement See 28911,Rubber Packing See 32932,Rubber Belting See 30411 Or Rubber Hose See 30412
	30711	Plastic Dinnerware Or Housewares
	30712	Plastic Pipe,Tubing Or Fittings
	30713	Industrial (Molded) Plastic Products
	30714	Unsupported Vinyl Or Polyethylene Film Or Sheeting
	30715	Unsupported Plastic Floor Or Wall Coverings
	30716	Expanded Or Foamed Plastics
	30717	Plastic Laminated Rods,Sheets Or Tubes
	30718	Plastic Packaging Or Shipping Contain- Ers,Viz Baskets,Bottles,Boxes,Cans, Cups,Drums,Jars,Tubs,Tubes Or Tumblers Or Caps,Closures,Inserts,Or Liners For Containers

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	30719	Miscellaneous Fabricated Plastic Products,Nec Exc Artificial Leather See 22951,Plas- Tic Materials See 28211,Plastic Footwear See 30212,Plastic Belting See 30411 Or Plastic Hose See 30412
	30729	Miscellaneous Fabricated Plastic Products,Nec Exc Artificial Leather See 22951,Plas- Tic Materials See 28211,Plastic Footwear See 30212,Plastic Belting See 30411 Or Plastic Hose See 30412
	31111	Leather,Finished Or Tanned
	31211	Industrial Leather Belting
	31311	Boot Or Shoe Cut Stock Or Findings, All Materials
	31411	Footwear,Leather Or Other Materials Exc Rubber See 30211,Plastic See 30212 Or House Slippers See 31421
	31421	House Slippers,Leather Or Other Materials
	31611	Luggage Or Handbags,Leather Or Other Materials,Or Other Personal Leather Goods Exc Hat Boxes,Paper Or Paperboard See 26511 Or Precious Metal See 39111
	31999	Leather Goods,Nec
	32111	Sheet (Window) Glass
	32112	Plate Glass
	32119	Flat Glass,Nec
	32211	Glass Containers,Or Glass Caps Or Covers Exc Glass Bottles See 32212
	32212	Glass Bottles
	32219	Glass Containers,Nec
	32291	Art,Kitchen,Novelty Or Table Glassware
	32292	Lighting Glassware Exc Complete Electric Light Bulbs See 36411
	32293	Glass Fibre
	32294	Glass Mirrors
	32295	*Glass Blocks,Brick,Skylights Or Related Products*
	32296	Electronic Glassware Exc Complete Electronic Tubes See 36711
	32299	Glass Or Glassware,Blown Or Pressed,Nec Exc Flat Glass See 32111-32119,Glass Containers See 32211-32119,Glass Wool Insulation Products (Mineral Wool) See 32961 Or Optical Lenses See 38311
	32411	Hydraulic Cement,Natural,Portland Or Masonry
	32412	*Ready-Mix Cement Or Concrete, Dry*
	32511	Brick Or Blocks,Clay Or Shale Exc Clay Or Nonclay Refractories See 32551-32552,Glass See 32295 Or Sand Lime See 32999
	32512	Glazed Brick Or Blocks,Clay,Shale Or Ceramic,Or Facing Molding Or Tile Or Structural Hollow Tile,Glazed Or Not Glazed Exc Ceramic Floor Or Wall Tile See 32531 Or Clay Or Nonclay Refrac- Tories See 32551-32552
	32531	Ceramic,Enamel,Faience,Promenade Or Quarry Floor Or Wall Tile Exc Drain Tile See 32592 Or Structural Clay Tile See 32512
	32551	Clay Refractories
	32552	Nonclay Refractories Exc Dead Burned Magnesia Or Magnesite See 32953
	32594	Clay Roofing Tile
	32595	Clay Tile Beams,Channels,Double Trees, Girders Or Joists,Reinforced
	32599	Structural Clay Products,Nec
	32611	Vitreous China Plumbing Fixtures Or Vitreous China Or Earthenware Bathroom Accessories Or Fittings
	32621	Vitreous China Kitchen Or Table Articles Or Fine Earthenware (Semivitreous Or Whiteware)
	32641	Porcelain Electrical Supplies,Steatite Or Other Ceramic Electrical Supplies
	32699	Pottery Products,Nec
	32711	Concrete Brick Or Blocks
	32713	Concrete Piling,Poles Or Posts
	32714	Concrete Conduit,Culverts,Drains,Pipe Or Tile
	32715	Concrete Structural Shapes,Reinforced
	32719	Concrete Products,Nec
	32741	Lime Or Lime Plaster
	32752	Gypsum Plaster
	32753	Gypsum Building Materials Exc Lath See 32751,Plaster See 32752 Or Wallboard See 32754
	32754	Gypsum Wallboard
	32759	Gypsum Products Exc Gypsum Building Materials See 32751-32753
	32811	Cut Granite Or Granite Products

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	32812	Cut Limestone Or Limestone Products
	32813	Cut Marble Or Marble Products
	32814	Cut Slate,Soapstone,Talc Or Related Products
	32819	Clay Stone Or Stone Products,Nec
	32911	Nonmetallic Artificial Abrasives,Flour (Synthetic Abrasives),Powders Or Sized Grains
	32912	Nonmetallic Bonded Abrasive Products, Nonmetallic Coated Abrasives,Or Diamond Abrasives
	32914	Metal Abrasives Or Metal Scouring Pads, Soap Impregnated
	32919	Abrasive Products,Nec
	32932	*Packing,All Types*
	32951	Vermiculite,Exfoliated,Loose
	32952	Light Weight Aggregates,Clays Or Slags, Ground Or Treated In Any Other Manner Exc Ground Or Otherwise Treated At Mine Site See 14911-14919,Or Diatomaceous Or Infusorial Earth See 14918
	32953	Magnesite Or Magnesia,Calcined,Dead Burned Or Ground
	32954	Pyrophillite,Steatite (Soapstone) Or Talc,Ground Or Otherwise Treated
	32955	Feldspar,Ground Or Otherwise Treated
	32956	Ground Uncalcined Gypsum,Gypsite Or Anhydrite
	32957	Mica,Ground Or Otherwise Treated
	32958	Natural Graphite (Black Lead),Blended, Ground,Pulverized Or Refined
	32959	Nonmetallic Minerals Or Earths,Ground Or Treated In Any Other Manner Exc Coal See 11111-11222,Crushed Stone See 14211-14219 Or Industrial Sand See 14413
	32961	Mineral Wool Exc Asbestos Insulation See 32924 Or Textile Glass Fibres See 32293
	32996	Nonmetallic Mineral Insulating Materials Exc Asbestos See 32924,Gypsum See 32753,Mineral Wool See 32961 Or Paper See 26614
	33111	Pig Iron
	33112	Furnace Slag Exc Ground Or Otherwise Treated See 32952
	33115	Metallizing Plant Products
	33119	Blast Furnace,Open Hearth,Rolling Mill Or Coke Oven Products,Nec Exc Asphalt,Pitches Or Tars See *29116*, Crude Tar Products,Or Chemicals See 28,Metallic Ores See 10 Or Oils See 29114 Or 29912
	33121	Steel Ingot Or Semi-Finished Shapes
	33122	Iron Or Steel Plates
	33123	Iron Or Steel Sheet Or Strip
	33124	Iron Or Steel Bars,Bar Shapes Or Rods
	33125	Structural Shapes Or Piling,Steel Mill Products
	33126	Iron Or Steel Pipe,Tubes Or Fittings
	33127	Tin Mill Products
	33128	Railway Track Material Viz Rails, Joint Bars, Tie Plates Or Related Products
	33129	Primary Iron Or Steel Products, N E C
	33131	Ferromanganese
	33132	Ferrochrome
	33133	Ferrosilicon
	33134	Additive Alloys Exc Copper
	33135	Electrometallurgical Products,Nec Exc Aluminum,Magnesium Or Copper
	33139	Ferroalloys,Nec
	33151	Noninsulated Ferrous Wire Rope,Cable Or Strand
	33152	Steel Nails,Staples,Tacks,Brads Or Spikes Exc Railway Spikes See 33128
	33155	Steel Wire Exc Miscellaneous Fabricated Wire Products See 34812-34819
	33211	Iron Or Steel Cast Pipe Or Fittings
	33219	Iron Or Steel Castings,Nec
	33311	Primary Copper Or Copper Base Alloy Pig, Slab Or Ingots,Etc
	33312	Copper Matte,Speiss,Flue Dust Or Residues,Etc
	33321	Lead Pig,Slab,Ingots Or Bullion Exc Solder,Babbitt Or Type Metal See 33567
	33322	Lead Matte,Speiss,Flue Dust,Dross,Slag, Skimmings,Etc
	33331	Zinc Smelter Products,Viz Spelter,Pig Slab Or Ingots
	33332	Zinc Dross, Residues, Ashes, Etc
	33341	Primary Aluminum Billets,Blooms,Pig, Slab Or Ingots
	33342	*Aluminum Residues, Etc*
	33391	Magnesium Pig,Slab Or Ingots

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	33394	Nickel Pig,Slab Or Ingots
	33395	Tin Or Tin Base Alloy Pig,Slab Or Ingots Exc Solder,Babbitt Or Type Metal See 33567
	33398	Miscellaneous Nonferrous Metal Residues, Including Solder,Babbitt Or Type Metal Residues
	33399	Primary Nonferrous Metal Ingots,Pig Or Slab,Nec
	33511	Copper,Brass Or Bronze Or Other Copper Base Alloy Rods Or Bars
	33512	Copper,Brass,Bronze Or Other Copper Base Alloy Plate,Sheet Or Strip
	33513	Copper,Brass,Bronze Or Other Copper Base Alloy Pipe Or Tube
	33519	Copper,Brass,Bronze Or Other Copper Base Alloy Shapes,Nec
	33521	Aluminum Or Aluminum Base Alloy Plate Or Sheet
	33523	Aluminum Or Aluminum Base Alloy Rods Or Bars
	33524	Aluminum Or Aluminum Base Alloy Pipe Or Tube
	33529	Aluminum Or Aluminum Base Alloy Basic Shapes,Nec Exc Aluminum Foil Or Foil Stock See 34992
	33561	Magnesium Or Magnesium Base Alloy Basic Shapes
	33562	Lead Or Lead Base Alloy Basic Shapes Exc Solder, Babbitt Or Type Metal See 33567
	33563	Nickel Or Nickel Base Alloy Basic Shapes
	33564	Zinc Or Zinc Base Alloy Basic Shapes
	33565	Titanium Basic Shapes
	33566	Welding Rods, Bars Or Wire
	33569	Nonferrous Metal Basic Shapes,Nec Exc Residues Included In Primary Industries See 33398
	33571	Aluminum Or Aluminum Base Alloy Wire, Cable Or Strand,Bare
	33572	Copper Or Copper Base Alloy Wire,Strand Or Cable,Bare
	33573	Nonferrous Metal Or Nonferrous Metal Base Alloy Wire,Bare Exc Aluminum See 33571 Or Copper See 33572
	33574	Wire Or Cable,Insulated,Enameled Or Covered,All Types
	33612	Aluminum Or Aluminum Base Alloy Castings Exc Cooking Utensils See 33611
	33621	Brass,Bronze,Copper Or Other Copper Base Alloy Castings
	33691	Magnesium Or Magnesium Base Alloy Castings
	33692	Zinc Or Zinc Base Alloy Castings
	33693	Lead,Lead Base Alloy,Babbitt Or White Metal Castings
	33699	Nonferrous Metal Castings, N E C
	33911	Iron Or Steel Forgings
	33991	Metal Powder,Flakes Or Paste
	33992	Nonferrous Metal Nails,Brads,Spikes Or Staples
	33999	Primary Metal Products,Nec
	34111	Metal Cans,Including Mixed With Can Bottoms Or Tops
	34411	Fabricated Structural Iron Or Steel Products
	34422	Metal Window Frames Or Sash Exc Storm Sash Or Screen And Storm Sash See 34425
	34434	Gas Cylinders (Pressure Tanks)
	34443	Sheet Metal Cornices,Skylights Or Roof Ventilators
	34447	Sheet Metal Awnings Or Canopies
	3481334	Wire Fencing Or Poultry Netting, Iron Or Steel, Welded Or Woven, Galvanized Or Plain
	3481610	Barbed Or Twisted Wire, Iron Or Steel, Acid Coppered, Galvanized, Painted, Plain Or Tinned, Or Aluminum, Brass, Bronze Cadmium Or Copper Coated, Nec
	34919	Metal Shipping Containers,Nec Viz Barrels,Cans,Drums,Kegs,Pails,Etc
	34941	Metal Valves For Piping,Plumbing Or Heating Systems
	34992	Metal Foil Or Leaf,Or Products Therefrom Exc Foil Sanitary Food Containers See 34996
	34994	Coating,Anodizing,Coloring,Electroplat- Ing,Engraving,Plating Or Polishing, Etc ,Of Metals Or Metal Products Exc Galvanizing See 33
	34997	Metal Shipping Containers,Boxes Or Racks Exc Barrels,Cans,Drums,Kegs,Pails Or Reels See 34912-34919
	34998	Fabricated Metal Products,Nec
	34999	Fabricated Metal Products,Nec
	35199	Internal Combustion Engines,Nec Exc Aircraft,Missile Or Space Vehicle See 37221-37222,Motor Vehicle See 37144

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	35241	Garden Tractors,Lawn Or Garden Equipment Or Snow Blowers
	35316	Mixers,Paver Or Related Equipment
	35721	Typewriters Or Parts
	35731	Electronic Data Processing Machines Or Associated Equipment Exc Typewriters Or Parts See 3572
	35741	Accounting Or Calculating Machines Or Cash Registers
	35761	Scales Or Balances Exc Laboratory See 38113
	35791	Addressing,Dictating Or Duplicating Machines
	35799	Office Machines,Nec
	35811	Automatic Merchandising Machines (Coin Operated Only)
	35821	Commercial Laundry Equipment Or Presses
	35822	Commercial Dry Cleaning Equipment Or Clothes Presses
	35851	Heat Transfer Equipment
	35853	Commercial Refrigeration Equipment
	35854	Compressors Or Compressor Units,All Refrigerants
	35855	Condensing Units, All Refrigerants
	35856	Ice Making Machinery Or Equipment
	35857	Air Conditioning,Cooling Or Dehumidify- Ing Equipment
	35859	Refrigerators Or Refrigeration Machinery,Nec
	35891	Commercial Cooking Or Food Warming Equipment
	35892	Commercial Or Industrial Vacuum Cleaners,Parts Or Attachments
	36311	Household Ranges,Ovens Or Surface Cook- Ing Equipment,Or Parts,All Types
	36321	Household Refrigerators Or Home Or Farm Freezers,All Types
	36331	Household Washing Machines Or Dryers Or Washer-Dryer Combinations Or Parts
	36332	Other Household Laundry Equipment,Iron- Ing Machines,Wringers,Or Parts
	36341	Electric Fans Exc Attic Fans,Or Commercial Or In- Dustrial Exhaust Or Ventilating Fans Or Blowers See 35641
	36343	Small Electric Cooking Or Heating Appliances Exc Water Heaters See 36392
	36346	Small Household Electric Appliances, Attachments Or Parts Exc Cooking Or Heating Appliances See 36343 Or Fans See 36341
	36347	Personal Electric Appliances,Attach- Ments Or Parts,Viz Dry Shavers,Mani-Cure Sets,Portable Hairdriers,Razors, Tooth Brushes,Etc
	36349	Electric Housewares,Nec,Electric Can Openers,Knife Sharpeners,Vaporizers, Etc
	36351	Household Vacuum Cleaners,Parts Or Attachments
	36361	Sewing Machines Or Parts Exc Cases Or Cabinets Separately See 25179
	36392	Water Heaters,All Types
	36393	Household Dishwashing Machines
	36399	Household Appliances,Nec,Floor Waxing Or Polishing Machines,Waste Food Dis- Posers Or Other Household Service Machines
	3643915	Electrical Cord Sets, Nec
	36511	Household Or Automotive Radios Or Radio- Phonograph Combinations
	36512	Household Television Receivers Or Television Combinations
	36521	Phonograph Records,Record Blanks Or Prerecorded Tapes
	36611	Telephone Switching Or Switchboard Equipment
	36711	Electronic Tubes Exc X-Ray Tubes See 36931
	36741	Solid State Semiconductor Devices, Diodes,Transistors Or Cells
	36921	Primary Batteries (Dry Or Wet)
	36931	Radiographic X-Ray,Fluoroscopic X-Ray, Therapeutic X-Ray Or Other X-Ray Apparatus,Or X-Ray Tubes
	36941	Electrical Equipment Viz For Internal Combustion Engines
	36999	Electrical Machinery,Equipment Or Supplies,Nec,Or Lamp Bulb Components, Exc Glass Blanks See 32292
	37151	Truck Trailers
	37424	Maintenance Or Repair Cars Viz Weed Burners,Inspection,Etc
	37426	Railroad Car Wheels
	37428	Parts Or Accessories For Railroad Or Street Cars Exc.Wheels See 37426
	37429	Parts Or Accessories For Railroad Or Street Cars Exc Wheels See 37426
	37511	Motorbikes,Motorcycles,Motorscooters Or Bodies,Chassis Or Side Cars
	37512	Bicycles
	37513	Parts Or Accessories,Bicycle,Motorbike, Motorcycle Or Motorscooter
	37911	Trailer Coaches,Housing Type

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	37992	Horse-Drawn Or Similar Vehicles Exc Sleighs Or Sleds See 37995
	37993	Hand Carts,Wagons,Wheelbarrows,Or Parts
	37994	Horse-Drawn Or Similar Vehicle Parts Exc Sleigh Or Sled Parts See 37995
	37995	Sleighs,Sleds Or Parts,Horse-Drawn
	38111	Aircraft Flight,Nautical Or Navigational Instruments,Or Automatic Pilots
	38112	Surveying Or Drafting Instruments
	38113	Laboratory Or Scientific Instruments,Or Laboratory Furniture
	38119	Engineering,Laboratory Or Scientific Instruments,Nec
	38212	Gas,Water Or Other Liquid Meters Or Recording Devices
	38213	Weather Measuring Instruments Or Gauges
	38219	Mechanical Measuring Or Controlling Instruments,Nec
	38221	Automatic Temperature Controls
	38311	Optical Instruments,Lenses,Range Or Height Finders Exc Sight Or Fire Control Equipment See 19411
	38411	Surgical Or Medical Instruments Or Apparatus
	38412	Hospital,Dental,Opticians Or Operating Room Furniture Exc Hospital Beds See 25991
	38421	Orthopedic,Prosthetic Or Surgical Supplies Or Appliances
	38431	Dental Instruments,Supplies Or Equipment
	38511	Spectacles,Eyeglasses,Sunglasses Or Related Ophthalmic Or Opticians Goods Exc Optical Instruments Or Lenses See 38311
	38612	Photographic Developing,Photocopy,Micro- Filming,Blueprinting,Van Dyke Or White Printing Equipment
	38613	Still Or Motion Picture Equipment,Film Magazines Or Parts
	38615	Photographic Sensitized Film,Plates, Photographic Paper Or Cloth
	38619	Photographic Equipment Or Supplies,Nec
	38711	Watches,Clocks,Clockwork Operated Devices,Or Parts
	39141	Silverware,Plated Ware,Stainless Steel Ware Or Flatware
	39311	Pianos
	39312	Organs
	39313	Piano Or Organ Parts
	39319	Musical Instruments,Accessories Or Parts Exc Instrument Benches See 25112 Or Instrument Cases See 31611
	39411	Games Or Toys Exc Dolls Or Stuffed Toy Animals See 39421,Childrens Vehicles See 39431-39439
	39421	Dolls Or Stuffed Toy Animals
	39431	Baby Or Doll Carriages,Strollers Or Walkers
	39439	Childrens Vehicles Or Parts,Nec Exc Bicycles Or Motorcycles,Or Parts See 37511-37513
	39491	Fishing Tackle, Equipment Or Parts
	39492	Billiard Or Pool Tables,Playing Supplies,Balls,Cue Or Parts
	39493	Bowling Alleys,Balls,Supplies,Or Parts
	39494	Golf Clubs,Balls,Equipment,Supplies Or Parts
	39496	Tennis,Badminton,Baseball,Cricket,Soft- Ball,Football,Basketball,Soccer Or Hockey Equipment,Supplies,Parts,Or Balls
	39497	Playground Or Gymnasium Equipment Or Parts
	39499	Sporting Or Athletic Goods Or Parts,Nec
	39511	Pens Or Parts
	39521	Pencils Or Crayons
	39522	Artists Materials
	39531	Marking Devices
	39551	Carbon Or Stencil Paper Or Ink Ribbons
	39611	Costume Jewelry Or Novelties Exc Precious Metal See 39111
	39621	Feathers,Plumes Or Artificial,Decorative Or Preserved Flowers Or Fruits Exc Glass See 32299,Decorative Ever- Greens,Holly Or Mistletoe,Or Ferns,Or *Live Christmas Trees See 08611-08613*
	39631	Buttons Or Parts Exc Precious Or Semi-Precious Metals Or Precious Or Semi-Precious Stones
	39641	Zippers Or Slide Fasteners
	39642	Needles,Pins,Fasteners Or Similar Notions Exc Slide Fasteners See 39641
	39911	Brooms Or Brushes For Carpet Sweepers, Vacuum Cleaners Or Other Rotary Machines,Or Paint Rollers

Continued on next page

STCC/GROUP	STCC	DESCRIPTION
	39921	Asphalted-Felt-Base Or Linoleum Or Other Hard Surface Floor Coverings,Or Sup- Ported Plastic Floor Or Wall Coverings Exc Asbestos Or Vinyl Asbestos See 32923,Cork See 24941 Or Rubber See 30618-30619
	39931	Luminous Tubing Or Bulb Signs
	39932	Nonelectric Advertising Signs,Displays Or Novelties Exc Road Or Traffic Signs See 39934 Or Paper Or Paperboard Advertising Displays Or Novelties See 26499
	39934	Nonelectric Road Or Traffic Signs
	39941	Morticians Goods
	39991	Chemical Fire Extinguishing Equipment Or Parts
	39992	Coin Operated Amusement Or Service Machines
	39993	Beauty Or Barber Shop Furniture Or Equipment
	39994	Hair Work,Viz Braids,Nets,Switches, Toupees,Wigs,Etc
	39995	Tobacco Pipes,Cigarette Holders, Accessories Or Parts
	39996	Christmas Tree Or Holiday Decorations Exc Christmas Tree Bulbs Or Sets See 36999
	40112	Ashes
	40211	Iron Or Steel Scrap,Wastes Or Tailings
	40212	Brass,Bronze,Copper Or Alloy Scrap, Tailings Or Wastes
	40213	Lead,Zinc Or Alloy Scrap,Tailings Or Wastes
	40214	Aluminum Or Alloy Scrap,Tailings Or Wastes
	40219	Nonferrous Metal Or Alloy Scrap, Tailings Or Wastes,Nec
	40221	Textile Waste,Scrap Or Sweepings
	40231	Wood Scrap Or Waste
	40241	Paper Waste Or Scrap
	40261	Rubber Or Plastic Scrap Or Waste
	40271	Stone,Clay Or Glass Waste Or Scrap
	40281	Leather Waste Or Scrap
	40291	Waste Or Scrap,Nec
	41112	Used Plant Or Office Equipment,Records Or Supplies
	41113	Railway Cars,Other Than New
	41119	Miscellaneous Freight Shipments,Nec
	46211	Mixed Shipments,2 Or More Major Groups Viz Commodities Representing Two Or More Major Stcc Groups,Where It Is Impossible To Determine The Predomin- Ant Group,For Example,Furniture,Major 25 & Bicycles,Major 37,Mixed
	47111	Small Packaged Freight Shipments Viz Less Than Carload,Truckload,Etc
	Except 1092310	Uranium Bearing Ore
	Except 1092315	Lignite Ash, Uranium Bearing, Value Not More Than $30 Ton
	Except 3295959	Natural Stone Dust, Granular, Ground, Powdered Or Pulverized, Nec, Other Than Limestone
	Except 3295980	Roofing Granules
	Except 3295982	Headlap Roofing Granules
	Except 3332230	Lead Flue Dust
	Except 3332235	Lead Baghouse Dust Or Fume, Cottrell Or Flue
	Except 4029105	Solids Or Debris,Other Than Soil Low-Level Radioactive Contamin- Ated,Nec,Dry
	Except 4029106	Soil, Low-Level Radioactive Contaminated, Nec, Dry
	Except 4029114	Municipal Garbage Waste, Solid, Digested And Ground, Other Than Sewage Waste Or Fertilizer

Prices are subject to Fuel surcharges

GENERAL APPLICATION RULES FOR ITEM 1057-F	
1	Price applies in United States funds
2	Price is subject to Exempt Circular UP 16 (series), item 695 (series)
3	Switching charges at origin will be absorbed up to $300 00, **OR** Switching charges at destination will be absorbed up to $300 00

APPLICATION AND RATES	
COLUMN	**RATE APPLICATION RULES**
1	Rates are in U S dollars Per Car Applies when the car capacity is not less than 1 Cubic Feet but not more than 5,600 Cubic Feet Applies in shipper owned or leased equipment, **AND** Mileage allowance payment on private equipment will not apply Applies in railroad owned or leased equipment Applies in box (AAR Car Types A, B, L04, L07, R-0, R-1, R-2 and R-9) cars, **OR** Applies in AAR Car Type M, Maintenance of Way cars
2	Rates are in U S dollars Per Car Applies when the car capacity is not less than 5,601 Cubic Feet but not more than 9,999 Cubic Feet Applies in shipper owned or leased equipment, **AND** Mileage allowance payment on private equipment will not apply Applies in railroad owned or leased equipment Applies in box (AAR Car Types A, B, L04, L07, R-0, R-1, R-2 and R-9) cars, **OR** Applies in AAR Car Type M, Maintenance of Way cars

	Col 1 Rate	Col 2 Rate	Route Code/Group
STCC Group: IP STCC BOX GROUP			
From: OR - COASTAL UPG GROUP			
To: AR - LITTLE ROCK UPG GROUP	7039 00	8097 00	UP
AR - NORTHEAST UPG GROUP	5797 00	6841 00	UP
AR - NORTHWEST UPG GROUP	7025 00	8079 00	UP
AR - SOUTH UPG GROUP	7028.00	8084 00	UP
AZ - PHOENIX UPG GROUP	5475 00	6460 00	UP
AZ - TUCSON UPG GROUP	5235.00	6177.00	UP
BJ - TECATE UPG GROUP	4925 00	5812 00	UP
BJ - TIJUANA UPG GROUP	5191 00	6128 00	UP
CA - BAKERSFIELD UPG GROUP	4176 00	4816 00	UP
CA - EL CENTRO UPG GROUP	5872 00	6755.00	UP
CA - FRESNO UPG GROUP	3847 00	4445 00	UP
CA - LA BASIN UPG GROUP	5357 00	6168.00	UP
CA - N CAL UPG GROUP	5092 00	6008 00	UP
CA - OAKLAND UPG GROUP	3959.00	4575 00	UP
CA - PLASTER CITY UPG GROUP	4441 00	5241 00	UP
CA - SACRAMENTO UPG GROUP	3944 00	4549.00	UP
CA - SAN BERNARDINO UPG GROUP	5331 00	6135 00	UP
CO - DENVER UPG GROUP	5940 00	6840 00	UP
CO - GRAND JCT UPG GROUP	4856 00	5729 00	UP
CO - PUEBLO UPG GROUP	5392 00	6363.00	UP
IA - CENTRAL UPG GROUP	6147 00	7100 00	UP
IA - EASTERN UPG GROUP	5844 00	6896 00	UP
IA - SIOUX CITY UPG GROUP	6108 00	7034 00	UP
ID - BOISE UPG GROUP	3344.00	3946 00	UP
ID - POCATELLO UPG GROUP	3730 00	4401 00	UP

Continued on next page

	Col 1 Rate	Col 2 Rate	Route Code/Group
IL - CENTRAL UPG GROUP	5701 00	6727.00	UP
IL - CHICAGO UPG GROUP	5537 00	7833 00	UP
IL - EJE UPG GROUP	5518.00	6511.00	UP
IL - NORTHWEST UPG GROUP	6289 00	7420 00	UP
IL - SOUTHEAST UPG GROUP	5691 00	6715 00	UP
IL - ST LOUIS UPG GROUP	6419 00	7718.00	UP
IN - SOUTH CHICAGO UPG GROUP	5595.00	6602 00	UP
KS - SALINA UPG GROUP	5528 00	6522 00	UP
KS - TOPEKA UPG GROUP	5169 00	6099 00	UP
KS - WESTERN UPG GROUP	5434 00	6412 00	UP
KS - WICHITA UPG GROUP	6102 00	7051 00	UP
LA - NORTH UPG GROUP	6475 00	7640 00	UP
LA - SOUTH UPG GROUP	7640 00	8846 00	UP
MN - DULUTH UPG GROUP	6178 00	7290 00	UP
MN - MINNEAPOLIS UPG GROUP	5712.00	6740 00	UP
MN - MPLS/TCWR UPG GROUP	5662 00	6682.00	UP
MN - SOUTH UPG GROUP	5505 00	6496 00	UP
MO - JEFFERSON CITY UPG GROUP	6847 00	7910 00	UP
MO - KANSAS CITY UPG GROUP	5944.00	7121 00	UP
MO - SEMO UPG GROUP	6451 00	7454 00	UP
MO - SPRINGFIELD UPG GROUP	6485 00	7465.00	UP
MT - MONTANA UPG GROUP	3101 00	3659 00	UP
NE - OMAHA UPG GROUP	6126.00	7073 00	UP
NE - WEST UPG GROUP	5116 00	6037.00	UP
NM - TUCUMCARI UPG GROUP	5640 00	6655.00	UP
NV - ELKO UPG GROUP	3918 00	4623 00	UP
NV - LAS VEGAS UPG GROUP	5073.00	5986 00	UP
NV - RENO UPG GROUP	4342 00	5002 00	UP
OK - CENTRAL UPG GROUP	6226 00	7346 00	UP
OK - EASTERN UPG GROUP	6586 00	7602 00	UP
OR - BEND UPG GROUP	2686.00	3169 00	UP
OR - COASTAL UPG GROUP	2600 00	3068 00	UP
OR - EUGENE UPG GROUP	2600 00	3068 00	UP
OR - K FALLS UPG GROUP	2679 00	3083.00	UP
OR - LA GRANDE UPG GROUP	2704 00	3191 00	UP
OR - MEDFORD UPG GROUP	3648 00	4304 00	UP
OR - PORTLAND UPG GROUP	2407 00	2841 00	UP
OR - ROSEBURG UPG GROUP	2600 00	3068 00	UP
SD - SIOUX FALLS UPG GROUP	5239 00	6181.00	UP
TN - MEMPHIS UPG GROUP	7047 00	8109.00	UP
TX - AMARILLO UPG GROUP	6035 00	7121.00	UP
TX - AUSTIN/SAN ANTONIO UPG GROUP	7151 00	8567 00	UP
TX - BEAUMONT UPG GROUP	8070 00	9283 00	UP
TX - BROWNSVILLE UPG GROUP	7065 00	8337 00	UP
TX - CORPUS CHRISTI UPG GROUP	6652.00	7849.00	UP
TX - DALLAS/FT WORTH UPG GROUP	6367 00	7514 00	UP
TX - EAGLE PASS UPG GROUP	6446 00	7607 00	UP
TX - EL PASO UPG GROUP	5611 00	6622 00	UP
TX - HOUSTON UPG GROUP	8041 00	9256 00	UP
TX - LAREDO UPG GROUP	6436 00	8496 00	UP
TX - NORTHEAST UPG GROUP	6567.00	7749 00	UP
TX - ODESSA UPG GROUP	5673 00	6694 00	UP
TX - SWEETWATER UPG GROUP	6204 00	7321 00	UP
TX - WACO UPG GROUP	6998 00	8065 00	UP
UT - SALT LAKE UPG GROUP	4586 00	5412 00	UP
UT - SW UTAH UPG GROUP	4837 00	5708 00	UP
WA - SEATTLE UPG GROUP	2704.00	3191 00	UP
WA - SPOKANE UPG GROUP	3089 00	3645 00	UP
WA - WALLULA UPG GROUP	2630 00	3103 00	UP
WI - EAU CLAIRE UPG GROUP	6019 00	7102 00	UP
WI - JANESVILLE UPG GROUP	5862.00	6917 00	UP
WI - LA CROSSE UPG GROUP	6092 00	7188 00	UP
WI - MILWAUKEE UPG GROUP	5810 00	7752 00	UP
WI - SUPERIOR UPG GROUP	6251 00	7376.00	UP
WY - WYOMING UPG GROUP	4814.00	5681 00	UP

NOTES	DESCRIPTION

3

Attachment JHW Rebuttal – 3

UNION PACIFIC	UPRR 24	**Item:** 1608-D PLYWOOD FROM OR - ROSEBURG UPG

CHANGE KEY: A-Add; C-Change; D-Decrease; I-Increase; and X-Expire

For billing purposes use the following rate authority: UPRR 24-1608-D

STCC/GROUP	STCC	DESCRIPTION
24321		Plywood Or Veneer Or Built-Up Wood Exc Plywood Or Veneer Containers See 24411-24414,Hardboard See 24993 Or Wood Particle Board See 24996

Prices are subject to Fuel surcharges

GENERAL APPLICATION RULES FOR ITEM 1608-D

1 Price applies in United States funds

2 Mileage allowance payment on private equipment will not apply

3 Price is subject to Exempt Circular UP 16 (series)

4 Switching charges at origin will be absorbed up to $300 00, **OR** Switching charges at destination will be absorbed up to $300 00.

APPLICATION AND RATES

COLUMN	RATE APPLICATION RULES
1	Rates are in U S dollars Per Car Applies when the car capacity is not less than 1 Cubic Feet but not more than 5,400 Cubic Feet Mileage allowance payment on private equipment will not apply Applies in box (AAR Car Types A, B, L04, L07, R-0, R-1, R-2 and R-9) cars, **OR** Applies in AAR Car Type M, Maintenance of Way cars
2	Rates are in U S dollars Per Car Applies when the car capacity is not less than 5,401 Cubic Feet but not more than 5,600 Cubic Feet Mileage allowance payment on private equipment will not apply Applies in box (AAR Car Types A, B, L04, L07, R-0, R-1, R-2 and R-9) cars, **OR** Applies in AAR Car Type M, Maintenance of Way cars
3	Rates are in U S dollars Per Car Applies when the car capacity is not less than 5,601 Cubic Feet but not more than 7,000 Cubic Feet Applies in shipper owned or leased equipment, **AND** Mileage allowance payment on private equipment will not apply. Applies in railroad owned or leased equipment

COLUMN	RATE APPLICATION RULES
	Applies in box (AAR Car Types A, B, L04, L07, R-0, R-1, R-2 and R-9) cars, OR Applies in AAR Car Type M, Maintenance of Way cars
4	Rates are in U S dollars Per Car
	Applies when the car capacity is not less than 7,001 Cubic Feet but not more than 9,999 Cubic Feet
	Applies in shipper owned or leased equipment, AND Mileage allowance payment on private equipment will not apply
	Applies in railroad owned or leased equipment
	Applies in box (AAR Car Types A, B, L04, L07, R-0, R-1, R-2 and R-9) cars, OR Applies in AAR Car Type M, Maintenance of Way cars
5	Rates are in U.S dollars Per Car
	DOES NOT apply in AAR Car Type F-8, flat cars
	Applies in equipment with an inside length equal to or greater than 1 feet 01 inches but not exceeding 82 feet 00 inches
	Applies in AAR Car Type F, flat cars, OR Applies in AAR Car Type M, Maintenance of Way cars.
6	Rates are in U S dollars Per Car
	Applies in equipment with an inside length equal to or greater than 63 feet 01 inches but not exceeding 99 feet 11 inches
	Applies in AAR Car Type F-8, flat cars, OR Applies in AAR Car Type M, Maintenance of Way cars

	Col 1 Rate	Col 2 Rate	Col 3 Rate	Col 4 Rate	Col 5 Rate	Col 6 Rate	Route Code/Group
STCC: 24321 Plywood Or Veneer Or Built-Up Wood Exc Plywood Or Veneer Containers See 24411-24414,Hardboard See 24993 Or Wood Particle Board See 24996							
From: OR - ROSEBURG UPG GROUP							
To: AR - *LITTLE ROCK UPG GROUP*	*4557 00*	*4739 00*	*5468 00*	*5914 00*	*5257 00*	*5484 00*	*UP*
AZ - PHOENIX UPG GROUP	3854 00	3998 00	4573 00	4923.00	4409 00	4588 00	UP
AZ - TUCSON UPG GROUP	3964 00	4112 00	4706 00	5067 00	4535 00	4722 00	UP
CA - LA BASIN UPG GROUP	3468 00	3596 00	4110 00	4421 00	3964 00	4126 00	UP
CA - OAKLAND UPG GROUP	2390 00	2473 00	2822 00	3030 00	2731 00	2840 00	UP
CA - SACRAMENTO UPG GROUP	2390 00	2473 00	2822 00	3030 00	2731.00	2840 00	UP
CA - SAN BERNARDINO UPG GROUP	3468 00	3596 00	4110 00	4421 00	3964 00	4126 00	UP
CO - DENVER UPG GROUP	3713 00	3849 00	4393 00	4725 00	4238 00	4409 00	UP
CO - GRAND JCT UPG GROUP	3771 00	3911 00	4474 00	4815 00	4314 00	4490 00	UP
IA - CENTRAL UPG GROUP	4156 00	4322.00	4987 00	5393.00	4794.00	5002 00	UP
IL - CHICAGO UPG GROUP	4358 00	4531 00	5229 00	5654 00	5025.00	5245 00	UP
IL - NORTHWEST UPG GROUP	4358 00	4531 00	5229 00	5654 00	5025.00	5245 00	UP
IL - ST LOUIS UPG GROUP	4358 00	4531 00	5229 00	5654 00	5025 00	5245 00	UP
KS - WICHITA UPG GROUP	4213.00	4382 00	5055 00	5467 00	4861 00	5071 00	UP
LA - NORTH UPG GROUP	4800 00	4980 00	5701 00	6000 00	5491 00	5716 00	UP
LA - SOUTH UPG GROUP	4800 00	4980 00	5701 00	6000 00	5491 00	5716 00	UP
NE - OMAHA UPG GROUP	4328 00	4501 00	5193 00	5617 00	4993 00	5208 00	UP
NV - LAS VEGAS UPG GROUP	3413.00	3539 00	4044 00	4350 00	3901 00	4059 00	UP
OK - CENTRAL UPG GROUP	4443 00	4621 00	5330 00	5767 00	5125 00	5346 00	UP
OK - EASTERN UPG GROUP	A 4443 0 0	A 4621 0 0	A 5330 0 0	A 5767 0 0	A 5125 0 0	A 5346 0 0	UP
TN - MEMPHIS UPG GROUP	4238 00	4409 00	5087 00	5384 00	5191 00	5416 00	UP
TX - AUSTIN/SAN ANTONIO UPG GROUP	4761.00	4939 00	5651 00	6087.00	5444 00	5667.00	UP
TX - BEAUMONT UPG GROUP	4871 00	5053 00	5782 00	6230 00	5572 00	5798 00	UP
TX - CORPUS CHRISTI UPG GROUP	5092 00	5283 00	6048 00	6517 00	5825 00	6063 00	UP
TX - DALLAS/FT WORTH UPG GROUP	4541 00	4710 00	5386 00	5799 00	5192 00	5402 00	UP
TX - HOUSTON UPG GROUP	4871 00	5053 00	5782 00	6230 00	5572 00	5798 00	UP
UT - SALT LAKE UPG GROUP	3400 00	3521 00	4003 00	4295 00	3868 00	4019 00	UP

NOTES	DESCRIPTION

REX

BEFORE THE
SURFACE TRANSPORTATION BOARD

Central Oregon & Pacific Railroad, Inc. – Abandonment and Discontinuance of Service – in Coos, Douglas, and Lane Counties, Oregon (Coos Bay Rail Line)	)	Docket No. AB-515 (Sub-No. 2)

VERIFIED STATEMENT OF CHARLES W. REX III

My name is Charles W. "Sandy" Rex III. I am co-owner of RMI Midwest ("RMI"), a firm specializing in real estate appraisal. My business address is 1200 Central Avenue, Suite 330, Wilmette, Illinois 60091. My qualifications and experience are set forth in the Verified Statement that I submitted in conjunction with the Abandonment Application filed in this proceeding on July 14, 2008.

I understand that no party has commented on my appraisal of the Net Liquidation Value ("NLV") of the land constituting the right-of-way of the rail line that is the subject of this proceeding, Central Oregon & Pacific Railroad Company's ("CORP's") Coos Bay Subdivision between Milepost 763.13 and Milepost 669 (the "Abandonment Segment").

I have also submitted an appraisal of the NLV of the land constituting the right-of-way of the rail line that is the subject of the Feeder Line Application filed by the Oregon International Port of Coos Bay (the "Port") in Finance Docket No 35160, which includes both the Abandonment Segment and an additional segment between Milepost 669 and Milepost 652.114. During the course of preparing my appraisal in that proceeding, I became aware of two errors in my prior appraisal of the Abandonment Segment The purpose of this Verified Statement is to correct those two errors, which result in a corrected Gross Liquidation Value of $[ ], and a corrected NLV of $[ ] for the Abandonment Segment.

First, witness Chapman advised me of an error in the title report that was provided to me in connection with my appraisal. Specifically, in the original title report, Parcel No. 11 in Valuation Section V-2 (on Map 6) was listed as a parcel for which CORP held "Less Than Fee" title. *See* V.S. Chapman, Attachment 2 at 2. As witness Chapman's Rebuttal Verified Statement indicates, she subsequently determined that CORP does, in fact, hold fee title to this parcel.

Based upon the erroneous information in the original title report, I did not assign any across-the-fence ("ATF") value to [ ] of right-of-way land that CORP actually holds in fee. As a result, the ATF valuation for the portion of the Abandonment Segment represented by this parcel was undervalued by $[ ] In order to give effect to this correction, the ATF Valuation Table set forth in my Verified Statement at page 25 (Figure 16) should be changed as follows: (1) Segment 1 should read [ ] in fee, ATF Value Fee should read $[ ], and ATF Value Total should read $[ ]; and (2) Segment 2 should read [ ] in fee, ATF Value Fee should read $[ ], and ATF Value Total should read $[ ].

Second, my appraisal of the Abandonment Segment did not account for certain timber rights held by Southern Pacific Transportation Co. ("SPT") in Lane and Coos Counties. The December 31, 1994, deeds from SPT to CORP, which transferred the Abandonment Segment (and certain other rail lines) to CORP, retained all timber rights in favor of SPT. CORP subsequently re-acquired the SPT timber rights in Douglas County. Specifically, by a Timber Quitclaim Deed dated March 26, 1998 (a copy of which is set forth in Attachment 1 to this Verified Statement), Union Pacific Railroad Company, SPT's successor, deeded to RailTexLogisitcs, Inc. (a CORP affiliate) all of its right, title and interest in and to all timber on the portion of CORP's right-of-way land located in Douglas County, OR (At that time, RailTex Logistics also re-acquired the timber rights in Jackson and Josephine Counties.) Accordingly,

the value of CORP's timbered property in Douglas County is not affected by the rights originally reserved by SPT.

I estimate that the timber rights retained by SPT reduce the NLV of CORP's right-of-way land in Lane and Coos Counties by $[ ] I developed this estimate through two different methods.

The purchase of the timber rights by CORP in Douglas, Jackson and Josephine Counties provides an excellent "comparable sale" for purposes of estimating the value of SPT's reserved timber rights in Lane and Coos Counties. However, to analyze that comparable sale based solely on the price allocated to each county is neither appropriate nor accurate. Of the 223.55 miles involved in the re-purchase transaction between CORP and UP, 137.59 miles were located in Douglas County, 48.99 miles were located in Jackson County, and 36.97 miles were located in Josephine County.[1] Nevertheless, according to the deeds, the parties allocated the total purchase price for the timber rights $[ ] equally among the three counties (approximately $[ ] per county). Accordingly, I believe that it is more realistic to analyze the comparable sale based on an allocation of the total purchase price on a mileage basis.

Since the total corridor acres, timber acres, and timber volume were not known for the three counties, the best analysis of this sale is on a price per mile of corridor basis. According to RailAmerica's real estate department, the sale consists of 223.55 miles, reflecting a unit price of [ ] The number of miles of Abandonment Segment corridor in Lane and Coos Counties is 72.09 miles (94.13 total miles less 22.04 miles in Douglas County). Accordingly, the sale indicates a value of the retained timber rights of $[ ].

[1] Of the 137 59 miles of track covered by the Douglas County deed, only 22.04 miles are located on the Abandonment Segment

An alternative way of estimating the value of the retained timber rights in Lane and Coos Counties is to consider their impact on the retail purchase of the corridor as it is disassembled. This may be estimated by inserting the value of the land only (sometimes called the cut-over value) for the timberland ATF land uses in Lane and Coos Counties. The unit values of the other ATF land uses would not be affected because of the principle of consistent use theory. In other words, the value of the timber does not affect the value of these other land uses because of their higher and better use.

In those areas where the ATF highest and best use is for timber, the land value is based on the following sales shown in Figure 24.

Figure 24 Cut-over Timberland Sales

Sale	Seller	Buyer	County	Sale Date	Sale Price	Size (acre)	Allocated price/acre

These sales tend to indicate a value for the land of only $[ ] per acre. Accordingly, the unit values for Land Use 2 and Land Use 24, shown in Figure 1 of my appraisal, should be reduced [ ]. The NLV in the discounted cash flow analysis before the reduction in retail values of Land Use 2 and 24 is $[ ]. Adjusting the unit value for Land Use 2 and 24 to $750 per acre results in an NLV of $[ ]. The difference between the two NLV estimates is $[ ]

Of these two approaches to estimating the value of the retained timber rights in Lane and Coos Counties, the actual sale between Union Pacific and CORP is the best indicator, except for

time This is a 1998 sale. The discounted cash flow approach, on the other hand, sets the upper limit to value. It is my opinion that a knowledgeable purchaser of the subject property for whom the timber rights were important would immediately negotiate to purchase the remaining timber rights from UP. It is reasonably likely that Union Pacific would sell its remaining rights for the following reasons:

- Such an offer would enable UP to monetize its retained timber rights in the near term.
- It would be expensive for UP to harvest the timber of a disassembled corridor because of the number of property owners that would be involved.
- Without an active rail line in place, the harvesting of the timber would be physically difficult and possibly require numerous surveys to establish the property line and the timber owned by UP.
- Given the two points above, it would be difficult for UP to sell the timber rights to a third party.
- Negotiating with the ultimate purchasers of the disassembled corridor for the timber rights would be laborious and costly.
- UP's monitoring and protecting its retained timber rights would be cost prohibitive.
- These points increase the risk of obtaining full value for the timber rights.

Given these reasons, UP can be reasonably expected to negotiate for a cash price for its timber rights with a purchaser of the subject corridor. The 1998 sale sets the lower probable price at $[ ], while the discounted cashflow analysis sets the upper limit at $[544,793]. While the upper end of this range leaves little cause for a prospective corridor purchaser to negotiate with UP, a number of benefits accrue to the purchaser at a price less than this. It is my opinion that the best estimate of the value of these retained rights for the portions of the Abandonment Segment in Lane and Coos Counties is $[ ]. Assuming that a prospective purchaser would purchase these rights soon after acquiring the subject corridor, the above value of the timber rights is subtracted from the NLV.

The rights reserved by SPT in connection with the original sale of rail lines to CORP also included certain water rights, mineral rights, and a perpetual exclusive easement on that portion of the right-of-way within 50 feet of the center line of the track for possible pipeline or communications (fiber optic) facilities (the "Communications and Pipeline Easement"). In addition, the original deeds from SPT to CORP provided that "No permanent building, structure or fence shall be erected or maintained by Grantee on or over the Communications and Pipeline Easement Property which would obstruct or interfere with any then existing or planned Microwave Facilities or other communications facilities or pipelines of Grantor located on or planned to be located on the Communications and Pipeline Easement Property" (the "No-Build Clause") None of these ancillary rights has a material effect on the value of the right-of-way land along the Abandonment Segment.

The "water rights" that SPT purported to retain have no effect on the value of the subject property because all water rights in this area of Oregon are owned by the State.

Nor have the mineral rights, or the Communications and Pipeline Easement (including the No-Build Clause) reserved by SPT adversely affected the value of CORP's right-of-way land. SPT has never attempted to exploit any mineral rights, nor has it installed (or granted to a third party the right to install) any pipeline or communications facilities at any point on or along the Abandonment Segment of the Coos Bay Subdivision Moreover, on its face, the No-Build Clause prohibits the construction of permanent buildings or structures within 50 feet of the center line only if such buildings or structures "would obstruct or interfere with any then existing or planned Microwave Facilities or other communications facilities or pipelines of [SPT] located on or planned to be located on" the CORP right-of-way. Because there are not – and there have never been -- any "existing" or "planned" SPT pipeline or communications facilities anywhere on

or along the Abandonment Segment, the rights reserved by SPT do not prohibit development of the right-of-way land within 50 feet of the center line at any point on or along the Abandonment Segment.

My analysis of actual right-of-way land sales by CORP (both along the Abandonment Segment and elsewhere along its lines) over the years confirm that the SPT reservations have not resulted in a discount in the purchase price from what would otherwise have been the "fair market value" of the subject property. To the contrary, it appears that CORP has consistently sold such land at prices at or above "Across-the-Fence" value.

For example, in June 2006, CORP sold 0.38 acres along its right-of-way in Reedsport, OR [ ]. The land was purchased [ ] for assemblage with their adjacent property for general storage purposes. Portions of the subject property fell within the area covered by the easements for pipeline and communications facilities, as well as the "No-Build Clause" reserved by SPT. Nevertheless, CORP obtained a purchase price of $[ ], for this property *See* Attachment 2 A contemporaneous memorandum to RailAmerica management indicates that the sale price was considered the prevailing market value of the property, and did not reflect <u>any</u> discount on account of the rights reserved by SPT. *See* Attachment 2 at 1.

In March 2004, CORP sold 2.55 acres of land in Cottage Grove, OR (in Lane County) to [ ]. The land was purchased by the Foundation for assemblage with adjacent land for development of the South Lane Cultural Heritage Center Again, portions of the subject property fell within the area covered by SPT's easements for pipeline and communications facilities, as well as the "No-Build Clause." CORP obtained a purchase price of $[ ]. *See* Attachment 3. A contemporaneous memorandum to RailAmerica management indicates.

the sale price was "consistent with prevailing land values" (*see* Attachment 3 at 1), and was supported by an independent third-party appraisal (*id.* at 2). Once again, no discount from market value was assigned based on the SPT rights.

CORP sold two parcels of land (in separate transactions) along its right-of-way at Veneta, OR [ ]. One parcel, consisting of 2.13 acres, was sold for $[ ], and the other, a 0.94-acre parcel, was sold for $[ ]. Portions of both parcels were subject to the easements for pipeline and communications facilities, and the "No-Build Clause," reserved by SPT. Nevertheless, CORP obtained an average price of more than $[ ] per acre for those properties. A contemporaneous memorandum to RailAmerica management indicates, the sale price in each case was based upon the full prevailing market value of the property, and did not reflect <u>any</u> discount on account of the rights reserved by SPT. *See* Attachment 4 at 1, 5.

Table 1 lists these and other right-of-way land sales that have occurred in the years since CORP acquired the Coos Bay Subdivision from SPT.

Table 1: CORP Land Sales Along Railroad Right-of-Way

Sale date	Location	County	Sale price	Size (acres)	Price/acre
[redacted]					

As Table 1 demonstrates, CORP has consistently realized market-based prices in selling its excess right-of-way land, notwithstanding the reservation of certain rights in the original deed from SPT to CORP. In no instance was land sold at a substantial discount from ATF value on account of SPT's reserved rights.

Taking these two corrections into account, my appraised NLV for the Abandonment Segment should be reduced by $[ ] from the value I previously reported: the correct NLV of the real estate in the Abandonment Segment is $[ ], based on a Gross Liquidation Value of $[ ].

VERIFICATION

I, Charles W. (Sandy) Rex, declare under penalty of perjury that the foregoing is true and correct Further, I certify that I am qualified and authorized to file this verified statement.

Charles W (Sandy) Rex

Executed on September 10, 2008

1

ORIGINAL

98-09298

BOOK 1534 PAGE 827

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

RailTex Logistics, Inc.
4040 Broadway, Suite 200
San Antonio, Texas 78209
Attn. Regional General Manager

Until a change is requested, all tax statements shall be sent to the following address:

RailTex Logistics, Inc.
4040 Broadway, Suite 200
San Antonio, Texas 78209
Attn: Regional General Manager

22- 24744

(Space above for Recorder's use only)

TIMBER QUITCLAIM DEED

UNION PACIFIC RAILROAD COMPANY, a Delaware corporation (formerly known as Southern Pacific Transportation Company), whose address is 1416 Dodge Street, Omaha, Nebraska 68179, Grantor, does hereby REMISE, RELEASE and forever QUITCLAIM unto RAILTEX LOGISTICS, INC., a Delaware corporation, Grantee, whose address is shown above, and unto its successors and assigns forever, all of Grantor's right, title, interest, estate, claim and demand, both at law and in equity, of, in, and to all timber growing, grown or to be grown on the property situated in Douglas County, State of Oregon, described in **Exhibit A** attached hereto and hereby made a part hereof (the "Timber Rights"), as reserved by Grantor in that certain Quitclaim Deed dated December 31, 1994, recorded in the Official Records of Douglas County, Oregon on January 3, 1995 in Book 1332, Pages 767 to 805, Instrument No 95-00007.

The true consideration for this quitclaim is One Hundred Sixty-Six Thousand Six Hundred Sixty-Six and No/100 Dollars ($166,666.00).

THIS INSTRUMENT WILL NOT ALLOW USE OF THE PROPERTY DESCRIBED IN THIS INSTRUMENT IN VIOLATION OF APPLICABLE LAND USE LAWS AND REGULATIONS. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY APPROVED USES AND TO DETERMINE ANY LIMITS ON LAWSUITS AGAINST FARMING OR FOREST PRACTICES AS DEFINED IN ORS 30 930 (ORS 93.040)

TOGETHER with all and singular the hereditaments and appurtenances thereunto belonging, and all actions for trespass to the timber on the property described in Exhibit A; TO HAVE AND TO HOLD, subject to the aforesaid provisions, the Timber Rights and the actions for trespass unto the said Grantee and unto its successors and assigns.

IN WITNESS WHEREOF, Grantor has caused this deed to be duly executed as of the 24 day of March, 1998

Attest:

UNION PACIFIC RAILROAD COMPANY,
a Delaware corporation

Cynthia J. Meyer (Seal)
Assistant Secretary

By: [signature]
Title: Assistant Vice President

STATE OF NEBRASKA)
) ss.
COUNTY OF DOUGLAS)

On March 24, 1998, before me, a Notary Public in and for said County and State, personally appeared R.D. UHRICH and C.J. MEYER, and Assistant Secretary, respectively, of UNION PACIFIC RAILROAD COMPANY, a Delaware corporation, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument, and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument

WITNESS my hand and official seal.

GENERAL NOTARY State of Nebraska
D H LIGHTWINE
My Comm Exp April 21, 2000

Notary Public

(SEAL)

EXHIBIT A

(Attached to and forming a part of the
Quitclaim Deed, Douglas County, Oregon,
dated as of 12:01 p.m., Pacific Standard Time,
December 31, 1994,
from Southern Pacific Transportation Company
to Central Oregon & Pacific Railroad, Inc.)

Land

SISKIYOU LINE AND COOS BAY BRANCH
DOUGLAS COUNTY, OREGON

All lands and property of the Southern Pacific Transportation Company's Siskiyou Line and Coos Bay Branch situated in the County of Douglas, State of Oregon:

Siskiyou Line

(Douglas County)

Exhibit "A"

A line of railroad situated in the County of Douglas, State of Oregon, comprised of strips and parcels of land between the Josephine and Douglas County line at M.P. (Mile Post) C-505.41, Engineers Station 4+89 near Glendale, and the Douglas and Lane County line at M.P. C-620.96, Engineers Station 2348+25 near Divide as described in deeds to the Oregon & California Railroad Company, Southern Pacific Railroad Company, Southern Pacific Company or the Southern Pacific Transportation Company, Grantees, and more fully described in deeds recorded in Douglas County records as follows:

Date	Grantor	Date of Recording	Book	Page
08-22-1882	Samuel Marks, et al.	08-29-1882	13	256
03-30-1907	O.C. Sather, et ux.	04-25-1907	57	107
12-18-1907	Oregon Idaho Co.	12-28-1907	57	590
02-28-1883	W.R. Willis, et ux., et al.	03-03-1883	13	597
04-08-1920	Glendale Lumber Co.	06-26-1920	81	154
05-03-1920	City of Glendale	06-26-1920	81	155
10-25-1929	Glendale Lumber Co.	05-19-1930	92	319
06-10-1886	David Loring	06-22-1886	17	576
03-01-1929	Clara J. Worthington	03-14-1929	91	141
06-14-1939	Douglas County	07-12-1939	100	415
02-12-1883	J.B. Nichols, et ux.	02-24-1883	13	584
01-18-1883	W.H. Riddle, et al.	02-09-1883	13	555
03-12-1888	C. Ledgerwood, et ux.	03-17-1888	20	1
06-10-1882	A.M. Beaty	06-12-1882	13	106
03-02-1883	H.H. Nichols	03-06-1883	13	604
01-18-1883	W.H. Riddle, et al.	02-09-1883	13	554
12-16-1881	W.R. Mynatt, et ux.	12-20-1881	12	434
06-10-1882	Daniel Raymond	06-12-1882	13	107
02-12-1883	J.B. Nichols, et ux.	02-24-1883	13	589
12-15-1881	Noah Cornutt, et ux.	12-20-1881	12	428
04-16-1909	Glenbrook Land & Lbr. Co.	10-05-1909	63	238
12-15-1881	Abner Riddle, et ux.	12-20-1881	12	437
12-16-1881	Abner Riddle, et ux.	12-20-1881	12	436

Date	Grantor	Date of Recording	Book	Page
12-05-1889	Abner Riddle, et ux.	12-13-1889	22	266
12-14-1881	J.D. Cornutt, et ux.	12-20-1881	12	429
03-02-1883	J.D. Cornett, et al.	03-06-1883	13	602
10-30-1884	Hans Weaver, et ux.	12-05-1884	16	51
12-13-1881	Hans Weaver, et ux.	12-20-1881	12	440
05-28-1948	City of Riddle	08-28-1948	159	3
12-13-1881	James Adams, et ux.	12-20-1881	12	423
01-29-1883	Rosa Adams	02-09-1883	13	556
12-12-1881	John Hall, et ux.	12-20-1881	12	431
01-02-1882	John Hall, et ux.	01-04-1882	12	472
06-20-1887	Martin Purkeypile, et ux.	06-23-1887	19	12
11-13-1913	Lexington Investment Co.	01-05-1914	73	222
09-16-1899	John Hall, et ux.	09-25-1899	38	471
01-04-1913	S.B. Crouch, et ux	01-13-1913	71	546
11-20-1930	R.M. Baldwin, et ux.	12-22-1930	93	49
11-02-1881	G.H. Stevenson, et ux.	11-04-1881	12	339
04-25-1872	M.C. Ruckles, et ux.	05-16-1872	5	556
11-23-1881	M.C. Ruckles, et ux.	11-29-1881	12	384
09-25-1907	Lydia Dascomb	10-02-1907	57	435
06-18-1907	W.N. Moore, et ux.	06-29-1907	57	261
02-28-1882	M.C. Ruckles, et ux.	03-02-1882	12	550
07-28-1882	M.C. Ruckles, et ux.	07-31-1882	13	183
05-03-1912	W.N. Moore, et ux.	05-24-1912	70	549
12-28-1906	G.H. Stevenson, et ux.	01-07-1907	55	464
04-23-1872	William Slocum	05-03-1872	5	546
01-25-1883	Susan Smith, et vir.	02-09-1883	13	557
04-17-1872	William Hudson, et ux.	04-17-1872	5	543
08-18-1888	Jas. D. Burnett, et al.	08-22-1888	20	283
11-25-1911	J.F. Rose, et ux.	12-04-1911	68	561
11-02-1881	Robt. Phipps, et ux.	11-04-1881	12	338
04-22-1872	Wm. Sebsing, et ux.	05-04-1872	5	552
04-22-1872	John Dillard, et ux.	05-03-1872	5	548
11-30-1881	John Dillard, et ux.	12-01-1881	12	393
01-12-1883	John Dillard, et ux.	01-20-1883	13	497
01-13-1883	Robt. Phipps, et ux.	01-20-1883	13	498
11-02-1881	Robt. Phipps, et ux.	11-04-1881	12	337
04-09-1872	A. Miller, et ux.	05-04-1872	5	550
04-22-1872	James J. Rosnagle	05-03-1872	5	545
04-24-1872	Stephen Marsh, et ux.	05-04-1872	5	549
11-30-1881	Sarah J. Kelly	12-01-1881	12	392
03-27-1872	J. Green, et ux.	05-15-1872	5	562
11-02-1881	J. Green, et ux.	11-04-1881	12	336
12-03-1881	Jeptha Green, et ux.	12-05-1881	12	399
10-14-1994	State of Oregon	————	1322	514
03-27-1872	James Boggs, et ux.	04-17-1872	5	542
10-31-1881	James Boggs, et ux.	11-01-1881	12	334
11-02-1881	J. Green, et ux.	11-04-1881	12	336

Date	Grantor	Date of Recording	Book	Page
12-03-1881	J. Green, et ux.	12-05-1881	12	398
05-25-1872	Jos. J. Sheffield	05-16-1872	5	555
02-28-1872	Thos. P. Sheridan	04-17-1872	5	537
12-13-1881	Edward F. Sheridan	12-13-1881	12	417
03-02-1872	M. Parrott, et ux.	04-17-1872	5	541
06-18-1940	The Cal. Ore. Power Co.	08-13-1940	101	568
11-08-1940	Gen. Petroleum Corp. of Cal.	12-13-1940	102	158
02-28-1872	Aaron Rose, et ux.	04-17-1872	5	538
01-29-1873	Aaron Rose, et ux.	01-30-1873	6	108
06-09-1923	County of Douglas	07-28-1923	85	95
02-16-1924	W.S. Hamilton, et al.	03-28-1924	85	582
10-14-1926	William M. Allen, et ux.	10-28-1926	88	493
01-29-1873	Aaron Rose, et ux	01-0-1873	6	108
02-06-1907	S. Hamilton, et al.	02-18-1907	55	570
06-09-1883	Aaron Rose, et ux.	06-14-1883	14	260
08-13-1898	Aaron Rose, et ux.	04-06-1899	38	137
06-09-1883	Aaron Rose, et ux.	06-14-1883	14	262
03-16-1878	Aaron Rose, et ux.	03-19-1878	9	590
08-18-1898	Julie B. Comstock	04-06-1899	38	136
01-26-1907	J.G. Flook Co.	02-06-1907	55	547
02-29-1872	J.C. Flood, et al.	04-24-1872	5	548
04-27-1872	G. Mehl, et ux.	05-16-1872	5	564
02-28-1872	N. Cockelreas, et ux.	04-17-1872	5	540
06-13-1872	Joseph Williams, et ux.	06-27-1872	5	589
04-13-1901	Levi Miokler, et ux.	04-18-1901	42	227
02-28-1872	C. Gaddis, et ux.	04-22-1872	5	539
04-26-1872	John Aiken, et ux.	05-16-1872	5	561
06-04-1875	John Jones, et ux.	06-04-1875	7	308
04-26-1872	John C. Aiken, et ux.	05-16-1872	5	560
02-27-1872	Hiram Dixon, et ux.	04-17-1872	5	536
02-06-1907	S. Hamilton, et al.	02-18-1907	55	570
02-19-1921	A. Creason, et ux.	03-10-1921	82	35
12-05-1923	Joseph Micelli, et ux.	01-10-1924	85	424
02-16-1924	W.S. Hamilton, et al.	03-28-1924	85	582
03-25-1932	Foster Butner, et ux.	05-11-1932	94	211
10-05-1936	City of Roseburg	01-23-1937	98	186
12-04-1936	Halsey DeCamp, et ux.	01-23-1937	98	186
02-04-1965	U.S. Plywood Corp.	10-17-1966	380	778
07-27-1970	City of Roseburg	08-12-1970	451	211
07-27-1970	City of Roseburg	08-12-1970	451	213
07-13-1970	Roseburg Lumber Co.	08-12-1970	451	216
07-27-1970	King Subdiver, Inc.	08-12-1970	451	220
02-27-1872	Hiram Dixon, et ux.	04-17-1872	5	536
04-26-1872	John C. Aiken, et ux.	05-16-1872	5	560
04-26-1872	John Aiken, et ux.	05-16-1872	5	561
06-30-1911	Alan S. Dumbleton, et ux	07-10-1911	68	115
04-26-1872	Thomas Smith, et ux.	05-16-1872	5	557

Date	Grantor	Date of Recording	Book	Page
10-01-1881	Fendel Sutherlin, et ux.	01-24-1882	12	497
11-14-1922	Samuel A. Kendall, et al	12-08-1922	84	199
06-07-1882	Thos. F. Royal, et ux.	01-28-1884	15	121
07-29-1876	Ziba Dimmick, et ux.	08-22-1876	7	773
11-06-1876	Joseph A. Haines, et ux.	11-29-1876	8	168
06-03-1872	J.D.B. Lee, et ux.	06-27-1872	5	588
03-25-1873	J.D.B. Lee, et ux.	04-21-1873	6	216
02-16-1872	A.J. Chapman, et ux.	03-12-1872	5	530
04-15-1873	A.J. Chapman, et ux.	04-21-1873	6	218
08-10-1910	M.E. Wilson	08-27-1910	66	300
02-16-1872	B.J. Grubbe, et ux.	12-24-1881	12	459
04-20-1872	D.H. McBride, et ux.	05-04-1872	5	551
02-16-1872	E.T. Grubbe, et ux.	03-12-1872	5	532
02-21-1872	Jas. T. Cooper, et ux.	03-12-1872	5	531
06-06-1907	Phoenix Stone Co.	06-21-1907	57	239
07-23-1918	George W. Short, et al.	08-28-1918	79	64
06-05-1918	Alice Walker, et vir.	06-24-1918	5	352
02-21-1872	James T. Cooper, et ux.	03-12-1872	5	531
04-27-1872	John C. Smith, et ux.	05-16-1872	5	563
02-16-1916	J.F. Luse Co.	Cert. of Title	4	602
12-29-1909	Sutherlin Lane & Water Co.	01-17-1910	64	118
07-11-1913	J.F. Luse Co.	Cert. of Title	3	161
04-22-1915	J.F. Luse, et al.	Cert. of Title	4	331
03-18-1876	Mary V. Johnson	03-31-1876	7	623
01-29-1878	E.C. Lord	02-01-1878	9	440
03-10-1949	Weyerhaeuser Timber Co.	04-26-1949	167	140
02-14-1872	Reason Reed, et ux.	03-12-1872	5	528
03-19-1897	D.W. Stearns, et ux.	03-30-1897	35	313
04-27-1872	D.W. Stearns, et ux.	05-16-1872	5	558
02-14-1872	A.F. Brown, et ux.	03-12-1872	5	527
04-01-1904	A.F. Stearns, et ux.	04-13-1904	49	81
04-01-1904	A.F. Stearns, et al.	04-14-1904	49	81
09-10-1872	A.F. Brown, et ux.	10-31-1872	9	87
06-10-1903	A.F. Brown, et ux.	06-16-1903	47	268
12-01-1903	L.P. Sutherlin, et al.	01-25-1904	47	579
10-28-1903	A.F. Brown, et al.	11-23-1903	47	484
10-14-1896	Emanuel Hartsock, et ux.	10-21-1896	35	31
09-23-1871	Edward G. Young, et ux.	10-13-1871	5	517
09-26-1871	D.B. Hamblin, et ux.	10-12-1871	5	509
09-23-1871	M.R. Shupe	10-12-1871	5	513
09-23-1871	Joseph A. Dallon	10-12-1871	5	514
09-28-1871	D.C. Underwood, et ux.	11-04-1871	5	521
03-18-1876	John F. Sutherlin	03-24-1876	7	615
02-23-1869	W.L. Tower, et ux.	02-21-1908	59	52
06-15-1891	W.L. Tower, et ux.	06-23-1891	24	563

Date	Grantor	Date of Recording	Book	Page
07-17-1899	Isadore E. Rice, et ux.	07-26-1899	38	372
06-15-1891	Isadore E. Rice, et ux.	06-23-1891	24	562
09-22-1871	Ica F. Rice, et ux.	10-13-1871	5	518
04-27-1878	J.L. McKinney, et ux.	05-03-1878	9	723
11-01-1875	Martha Ann Smith	11-06-1875	7	495
09-06-1875	Robert Smith, et ux.	09-10-1875	7	426
12-18-1917	Horace Campbell, et ux.	01-10-1918	78	311
08-12-1919	Horace Campbell, et ux.	09-10-1919	80	65
04-26-1923	Rebecca G. Campbell	06-11-1923	84	618
07-21-1871	John Long, et ux.	10-12-1871	5	516
09-14-1910	R.W. Long, et ux.	10-17-1910	66	461
09-15-1910	S.G. Long, et ux.	10-17-1910	66	461
09-21-1871	William H. Wilson, et ux.	10-13-1871	5	519
01-30-1872	A.T. Ambrose, et ux.	03-12-1872	5	524
02-03-1913	John H. Sutherlin, et ux.	02-27-1913	72	26
11-17-1909	William Long	12-06-1909	63	452
09-27-1871	George A. Burt	10-12-1871	5	512
11-29-1875	Willamette Real Estate Co.	01-11-1876	7	549
08-14-1875	Chas Applegate, et ux.	08-19-1875	7	409
———1871	D.W. Applegate, et ux.	10-11-1871	5	503
10-07-1871	P.O. Applegate	11-16-1871	5	523
09-20-1871	W.H. Applegate	10-16-1871	5	504
09-20-1871	C. Drain, et al.	10-16-1871	5	507
09-30-1871	Conrad Snowden, et ux.	11-04-1871	5	520
09-25-1871	J. Applegate, et ux.	10-11-1871	5	502
03-15-1906	Skelley Lumber Co.	04-13-1906	51	623
11-27-1905	R. Becker, et ux.	12-16-1905	51	410
10-06-1905	Benton Mires	10-20-1905	51	305
11-27-1905	C. Arlandson, et ux.	12-16-1905	51	408
10-18-1905	Joseph Lyons, et ux.	11-16-1905	51	354
10-13-1905	C.D. Drain, et ux.	10-23-1905	51	312
09-29-1905	A.L. Moon, et ux.	10-20-1905	51	305
04-19-1876	J.G. Hughes	————	7	686
07-10-1899	J. Lyons, et ux.	07-17-1899	38	354
02-12-1872	J.W. Krewson, et ux.	03-12-1872	5	526
10-04-1871	C. Putnam	11-16-1871	5	522
06-07-1872	N.E. Mulvaney	01-28-1884	15	120
09-23-1871	E.A. Estes	10-11-1871	15	505
09-21-1871	E.T. Estes, et ux.	10-11-1871	15	506
09-26-1871	J.J. Comstock, et ux.	10-11-1871	15	501
———1871	William Ward, et ux.	10-11-1871	5	508
11-27-1906	J.A. Griggs, et ux.	12-15-1906	55	398
11-27-1906	F. Marketta	12-15-1906	55	399

Together with the 200 foot wide Congressional Grant right of way, acquired by the Oregon and California Railroad Company (predecessor of the Southern Pacific Transportation Company) by Act of Congress dated July 25, 1866, lying 100 feet on each side of the original surveyed line described as follows:

(1) Beginning at the point of intersection of the Josephine and Douglas County line in the west half of the southwest quarter of Section 10, Township 33 South, Range 6 west, W.B.& M,. with said surveyed line at or near Engineers Station 4+89; thence northwesterly, along said surveyed line, to a point in the north line of the southeast quarter of Section 4 said Township and Range at or near Engineers Station 77+70.

(2) Beginning at the point of intersection of the east line of the southwest quarter of the northeast quarter of Section 4, Township 33 South, Range 6 west, W.B.& M., with said surveyed line at or near Engineers Station 84+50; thence northwesterly, along said surveyed line, to a point in the north line of the northwest quarter of the southwest quarter of Section 32, Township 32, South, Range 6 west, W.B.& M., at or near Engineers Station 188+10.

Excepting the portion within the southeast quarter of the southeast quarter of said Section 32.

(3) Beginning at the point of intersection of the east line of the northwest quarter of the northeast quarter of Section 31, Township 32 South, Range 6 West, W.B.& M., with said surveyed line at or near Engineers Station 3334+30; thence westerly, along said surveyed line, to a point in a line in the northwest quarter of the southeast quarter of Section 19, Township 32 South, Range 7 West, W.B. & M., having a bearing of South 45° East and passing through a point distant 350 East of the center of said Section 19, at or near Engineers Station 2892+70:

Excepting the portion within the southeast quarter of the southeast quarter of Section 36, Township 32 South, Range 7 West, W.B. & M.

(4) Beginning at the point of intersection of the center line of Cow Creek in the southeast quarter of the southwest quarter of Section 1, Township 32 South, Range 8 West, W.B. & M., with said surveyed line at or near Engineers Station 2717+50; thence northeasterly, along said surveyed line, to a point in the east line of the northeast quarter of the southeast quarter of Section 35, Township 30 South, Range 7 West, W.B. & M., at or near Engineers Station 1900+30.

(5) Beginning at the point of intersection of the north line of the north half of the northwest quarter of Section 1 Township 31 South, Range 7 West, W.B. & M., with said surveyed line at or near Engineers Station 1875+00; thence easterly, along said surveyed line, to a point in said north line at or near Engineers Station 1868+90.

(6) Beginning at the point of intersection of the west line of the southwest quarter of the southwest quarter of Section 31, Township 30 South, Range 6 West, W.B. & M., with said surveyed line at or near Engineers Station 1809+12; thence northeasterly, along said surveyed line , to a point in the north line of Lot 1, in the northwest quarter of Section 32, said Township and Range at or near Engineers Station 1725+50.

(7) Beginning at the point of intersection of the south line of Lot 1 in the northeast quarter of Section 12, Township 30 South, Range 6 West, W.B. & M., with said surveyed line at or near Engineers Station 1379+50; thence northeasterly, along said surveyed line, to a point in the east line of the northeast quarter of the southeast of Section 1, said Township and Range at or near Engineers Station 1345+40.

(8) Beginning at the point of intersection of the south line of Lot 1 in the northeast quarter of Section 32, Township 29 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 1211+80; thence northeasterly, along said

surveyed line, to a point in the east line of said Lot 1 at or near Engineers Station 1204+80. .

(9) Beginning at the point of intersection of the south line of Lot 6 in the southwest quarter of Section 28, Township 29 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 1180+40; thence northeasterly, along said surveyed line, to a point in the east line of Lot 5 in said southwest quarter at or near Engineers Station 1164+60.

(10) Beginning at the point of intersection of the east line of Lot 1 in the northeast quarter of Section 28, Township 29 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 1141+33; thence northwesterly, along said surveyed line, to a point in the north line of lot 1 in the northeast quarter of Section 19, said Township and Range at or near Engineers Station 1027+25.

(11) Beginning at the point of intersection of the west line of Lot 6 in the southeast quarter of Section 18, Township 29 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 1000+90; thence northerly, along said surveyed line, to a point in the north line of Lot 5 in the northeast quarter of Section 18, said Township and Range at or near Engineers Station 973+20.

(12) Beginning at the point of intersection of the south line of the fractional northeast quarter of the northeast quarter of Section 2, Township 29 South, Range 6 West, W.B. & M., with said surveyed line at or near Engineers Station 814+30, thence northerly, along said surveyed line, to a point in the north line of fractional southeast quarter of the southeast quarter of Section 35, Township 28 South, Range 6 West, W.B. & M. at or near Engineers Station 788+40.

(13) Beginning at the point of intersection of the east line of the southeast quarter of the southeast quarter of Section 34, Township 28 South, Range 6 West, W.B.

& M., with said surveyed line at or near Engineers Station 713+00; thence westerly, along said surveyed line, to a point in the west line of Lot 1 in the northwest quarter of Section 3, Township 29 South, Range 6 West, W.B. & M. at or near Engineers Station 672+40.

(14) Beginning at the point of intersection of the west line of the northeast quarter of Section 27, Township 28 South, Range 6 West, W.B. & M., with said surveyed line at or near Engineers Station 445+85; thence northeasterly, along said surveyed line, to a point in the north line of said northeast quarter at or near Engineers Station 429+35.

(15) Beginning at the point of intersection of the east line of Lot 20 in the northwest quarter of Section 25, Township 26 South, Range 6 West, W.B. & M., with said surveyed line at or near Engineers Station 999+30 thence northerly, along said surveyed line, to a point in the south line of the James E. Walton Donation Land Claim 46 in the southwest quarter of Section 24, said Township and Range at or near Engineers Station 967+80.

(16) Beginning at the point of intersection of the south line of the southwest of the quarter of the northeast quarter of Section 17, Township 25 South, Range 5, West, W.B. & M., with said surveyed line at or near Engineers Station 555 + 55; thence northerly, along said surveyed line, to a point in the north line of the said southwest quarter of the northeast quarter at or near Engineers Station 541+80.

(17) Beginning at the point of intersection of the south line of Lot 3 in the northeast quarter of Section 8, Township 25 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 502+70; thence northerly, along said surveyed line, to a point in the north line of said Lot 3 at or near Engineers Station 496+86.

(18) Beginning at the point of intersection of the east line of the southeast quarter of the northwest quarter of Section 32, Township 24 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 349+10; thence northwesterly,

along said surveyed line, to a point in the west line of Lot 5 in the southwest quarter of Section 29, said Township and Range at or near Engineers Station 325+80.

(19) Beginning at the point of intersection of the north line of the northeast quarter of the southeast quarter of Section 32, Township 23 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 3+18; thence northwesterly, along said surveyed line, to a point in the south line of Richard Smith Donation Land Claim No. 47 in the northwest quarter of Section 33 said Township and Range at or near Engineers Station 28+00.

(20) Beginning at the point of intersection of the south line of Lot 4 in the southwest quarter of Section 27, Township 23 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 80+80; thence northerly, along said center line, to a point in the north line of said Lot 4 at or near Engineers Station 90+50.

(21) Beginning at the point of intersection of the west line of Lot 3 in the southwest quarter of Section 27, Township 23 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 105+10; thence northerly, along said surveyed line, to a point in the north line of the northwest quarter of the northwest quarter of said Section 29 at or near Engineers Station 134+30.

(22) Beginning at the point of intersection of the north line of the Warren N. Goodells Donation Claim No. 40 in the southeast quarter of Section 8, Township 22 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 2964+35; thence northeasterly, along said surveyed line, to a point in the north line of said southeast quarter at or near Engineers Station 2953+70.

(23) Beginning at the point of intersection of the west line of the northeast quarter of the northwest quarter of quarter of Section 9, Township 22 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 2923+20; thence

northeasterly, along said surveyed line, to a point in the north line of said northeast quarter of the northwest quarter at or near Engineers Station 2916+28.

(24) Beginning at the point of intersection of the west line of the southwest quarter of the northeast quarter of Section 4, Township 22 South, Range 5 West, W.B. & M., with said surveyed line at or near Engineers Station 2886+40; thence northeasterly, along said surveyed line, to a point in the north line of the southwest quarter of the southwest quarter of Section 34, Township 21 South, Range 5 West at or near Engineers Station 2834+20.

(25) Beginning at the point of intersection of the west line of the northwest quarter of the northwest quarter of Section 31, Township 21 South, Range 4 West, W.B. & M., with said surveyed line at or near Engineers Station 2676+26; thence northeasterly, along said surveyed line, to a point in the east line of the northeast quarter of the southwest quarter of Section 30, said Township and Range, at or near Engineers Station 2636+32.

(26) Beginning at the point of intersection of the east line of the northeast quarter of the northeast quarter of Section 30, Township 21 South, Range 4 West, W.B. & M., with said surveyed line at or near Engineers Station 2609+70; thence northeasterly, along said surveyed line, to a point in the north line of Lot 2 in the southeast quarter of Section 19, said Township and Range, at or near Engineers Station 2595+57.

(27) Beginning at the point of intersection of the south line of the southwest quarter of the southeast quarter of Section 9, Township 21 South, Range 4 West, W.B. & M., with said surveyed line at or near Engineers Station 2458+40; thence easterly, along said surveyed line, to a point in the east line of the southwest quarter of Section 11 said Township and Range, that is also the Douglas and Lane County line at or near Engineers Station 2346+25.

(28) A portion of Lot 3 in the southwest quarter of Section 31, Township 25 South, Range 5 West, W.B. & M., that is bounded westerly by a line concentric with and distant 100 feet westerly, measured radially, from said original surveyed line and bounded easterly by the east line of said Lot 3.

Together with the 200 foot wide Congressional Grant right of way, acquired by the Oregon & California Railroad Company (predecessor of the Southern Pacific Transportation Company) by Act of Congress dated March 3, 1875, lying 100 feet on each side of the original surveyed line described as follows:

Beginning at the point intersection of a line in the northwest quarter of the southeast quarter of Section 19, Township 32, South, Range 7 West, W.B. & M., having a bearing of South 45° East and passing through a point distant 350 feet east of the center of said Section 19, with said surveyed line at or near Engineers Station 2892+70; thence northwesterly, along said surveyed line, to a point in the center line of Cow Creek in the southeast quarter of the southwest quarter of Section 1, Township 32 South, Range 8 West, W.B. & M., at or near Engineers Station 2717+50.

Together with the strips or parcels of land described as follows:

(1) A strip of land, 100 feet in width, lying 50 feet on each side of the center line of the main track of the Southern Pacific Transportation Company, extending northwesterly from the point of intersection of said center line with the north line of the northwest quarter of the southwest quarter of Section 32, Township 32 South, Range 6 West, W.B. & M., at or near Engineers Station 188+10, to the west line of the northeast quarter of the northeast quarter of Section 31, said Township and Range, at or near Engineers Station 3334+30.

(2) A portion of Sheridan Street in the City of Roseburg described in Vacation dated November 13, 1911, Ordinance No. 328, being a strip of land approximately 450

feet in length and 12 feet in width, lying contiguous to and southeasterly of the southeasterly line of land described in deed dated January 29, 1873, from Aaron Rose, et ux., to the Oregon and California Railroad Company, recorded January 30, 1873, in Book 6 of Deeds, page 108, records of said County and extending southwesterly approximately 450 feet from the southwesterly line of Oak Street (60 feet wide).

(3) A strip of land, 50 feet in width, situated in the City of Roseburg, lying 25 feet on each side of the center line of the track shown on print of "Proposed Spur to Kinney's Addition," made a part of Indenture dated May 23, 1903, from Clara Rast, et al., to the Southern Pacific Company, said center line more particularly described as follows:

Beginning at the point of intersection of said center line with the westerly line of Winchester Street (60 feet wide); thence southwesterly, along said center line, to a point in the easterly line of the main line right of way (60 feet wide) of the Southern Pacific Transportation Company.

(4) A strip of land, 30 feet in width, being a portion of the land described in deed dated June 6, 1907, from the Phoenix Stone Company to the Oregon and California Railroad Company, recorded June 21, 1907, in Book 57 of Deeds, page 239, records of said County, lying 15 feet on each side of the center line described as follows:

Beginning at the junction of the center line of the originally located spur track leading to the Phoenix Stone Company's stone quarry with the center line of the main track of the Southern Pacific Transportation Company at Engineers Station 708+74; thence southeasterly, along the center line of said spur track, a distance of 428 feet, to a point in the northwesterly terminus of the land described in deed dated September 24, 1931, from the Southern Pacific Company to Elmer J. Crawford, et ux., at or near Engineers Station 4+28.

Excepting therefrom the 60 foot wide main line right of way of the Southern Pacific Transportation Company.

(5) A strip of land, 60 feet in width, lying 30 feet on each side of the center line of the main track of the Southern Pacific Transportation Company, extending northerly from the westerly line of Lot 3 in Block 13 in the town of Wilbur to the north line of Section 18, Township 26 South, Range 5 West, W.B. & M.

Excepting therefrom the portion included in Lots 3 and 4 in Block 2 and the portion in Blocks 3 and 4 in said town of Wilbur.

(6) A triangular parcel of land in the City of Sutherlin, being a portion of the southwest quarter of the southeast quarter of Section 17, Township 25 South, Range 5 West, W.B. & M., bounded westerly by the north-south center line of said Section, bounded north by the north line of said southwest quarter of the southeast quarter and bounded southeasterly by a line parallel with and distant 30 feet southeasterly, measured at right angles, from the center line of main track of the Southern Pacific Transportation Company.

(7) A portion of the Richard Smith Donation Claim No. 47 in the south half of the north half of Section 33, Township 23 South, Range 5 West, W.B. & M., bounded southerly by the south line of said Claim No. 47 and bounded northerly by a line concentric with and distant 30 feet northerly, measured radially, from the center line of the main track of the Southern Pacific Transportation Company near railroad station of Rice Hill.

(8) The portions of Drain Avenue, Beach Street, County Road and alleys in Blocks 20 and 21 in South Drain, vacated by Ordinance 243, dated June 5, 1916, abutting upon the lands of the Southern Pacific Transportation Company.

Excepting from the above described land all of the land described in deeds to various grantees as recorded in records of Douglas County as follows:

Date	Grantor	Date of Recording	Book	Page
12-21-1915	County of Douglas	04-08-1916	75	58
10-06-1950	City of Myrtle Creek	01-25-1951	188	681
12-31-1906	W.N. Moore	06-19-1907	57	234
10-20-1949	Paul B. Hult, et ux.	04-15-1950	178	247
09-10-1942	Coos Bay Lumber Co.	10-27-42	104	437
06-25-1979	Southern Pacific Co.	07-24-1979	79-11724	
09-24-1931	Elmer J. Crawford, et ux.	02-08-1932	94	63
04-03-1933	State of Oregon	07-22-1933	95	113
07-25-1918	Benton Mires	09-09-1918	79	77
06-14-1960	E.G. Whipple	06-29-1960	295	136
08-29-1978	Lucille Land	10-16-1978	78-19587	

Also excepting therefrom the strips or parcels of land described as follows:

(1) That portion of the land described in deed dated June 10, 1886, from David Loring to the Oregon and California Railroad Company, recorded June 22, 1886, in Book 17 of Deeds, page 576, records of said County, lying southerly of a line parallel and concentric with and distant 100 feet southerly, measured at right angles and radially, from the center line of the main track of the Southern Pacific Transportation Company.

(2) A parcel of land situated in the City of Riddle, being a portion of the land described in deed dated December 16, 1881, from Abner Riddle to the Oregon and

California Railroad Company, recorded December 20, 1881, in Book 12 of Deeds, page 436, records of said County, lying southeasterly of the following described line:

Beginning at the most easterly corner of the above described parcel of land; thence North 53° 55' West, along the northeasterly line of land described in said deed 5.08 feet; thence South 40° 16' West 571.65 feet; thence South 39° 01' 32" West 62.65 feet; thence South 36° 05' West 767.31 feet to a point in the southwesterly line of land described in said deed.

(3) A parcel of land situated in the City of Dillard, being that portion of the Station Grounds of the Southern Pacific Transportation Company, bounded northerly and southerly by the limits of said Station Grounds, bounded easterly by the easterly line of Pacific Highway and bounded westerly by the easterly line of Main Street (100 feet wide) and its southerly prolongation.

(4) Two parcels of land in the City of Roseburg described as follows:

(a) A parcel of land bounded southerly by Lane Street, bounded northwesterly by Bowen Street, bounded northerly by the southerly line of the land described in deed dated June 25, 1979, to the Southern Pacific Company, recorded July 24, 1979, as Document No. 79-11724, records of said County, and bounded southeasterly by a line parallel with and distant 67 feet northwesterly, measured at right angles, from the centerline of the main track of the Southern Pacific Transportation Company.

(b) A parcel of land described in deed dated March 20, 1947, from the Southern Pacific Company to F.S. Hamilton described therein as follows:

"A piece or parcel of land situate, lying and being in the southeast quarter of Section 24, Township 27 South, Range 6 West, W.B. & M., and being a portion of the parcel of land

described in deed dated June 9, 1883 from Aaron Rose et ux to Oregon and California Railroad Company, recorded June 14, 1883 in Book 14 of Deeds, page 260, Records of Douglas County, in the City of Roseburg, County of Douglas, State of Oregon, described as follows:

Beginning at the point of intersection of the easterly line of said parcel described in said deed with the center line of Burke Street of said City, distant North 62° 00' West, 162.6 feet, measured along said center line from its intersection with the center line of Short Street and 60 feet easterly, measured radially, from the original located center line of main track of the Southern Pacific Company; thence Southerly, along said easterly line of said parcel of land, along a curve to the left, having a radius of 895.04 feet (chord bears South 10° 24' 17" West, 71.5 feet) an arc distance of 71.52 feet to the southeasterly corner of said parcel of land described in said deed; thence North 81° 39' 17" West, along the southerly line of said parcel of land, 17.0 feet to a point; thence Northerly, along a curve to the right having a radius of 436.69 feet (chord bears North 10° 38' East, 77.4 feet), an arc distance of 77.5 feet to a point in the northwesterly prolongation of said center line of Burke Street; thence South 62° 00' East, along said prolongation, 17.5 feet to the point of beginning, containing an area of 1308 square feet, more or less."

Coos Bay Branch
Douglas County

Exhibit "A"

A line of railroad, comprised of strips and parcels of land lying between the common boundary of Lane and Douglas Counties at M.P. (Mile Point) 727.045, Engineers Station 1248+81.2 and the common boundary of Douglas and Coos Counties at M.P. 749.085, Engineers Station 2966+94.14, situated in Douglas County, State of Oregon, more fully described in the following instruments (Deed, etc.) to the Willamette Pacific Railroad Company and the Southern Pacific Company:

Date	Grantor	Date of Recording	Book	Page
04-06-1912	Sylvester J. Cox	04-29-1912	70	463
10-04-1913	J.A. Janelle, et ux	10-17-1913	73	21
04-09-1912	E.Z. Brewster, et al	04-27-1912	70	462
10-22-1913	William Kroll, et ux	11-01-1913	73	60
12-19-1911	Gardiner Mill Company	12-22-1911	70	52
12-15-1911	Gardiner Mill Company	12-18-1911	70	41
12-02-1912	Gardiner Mill Company	01-28-1913	71	589
06-18-1915	Menasha Wooden Ware Co.	07-17-1915	75	176
12-14-1912	Gardiner Mill Company	01-28-1913	71	591
12-16-1911	John W. Wroe, et ux	01-11-1912	70	127
11-21-1911	Frank Perry, et ux	12-08-1911	68	578
11-22-1911	William Dewar, et ux	12-18-1911	70	41
12-19-1911	W.P. Reed, et ux	01-11-1912	70	128
12-18-1911	Gardiner Mill Company	12-22-1911	70	54
09-11-1914	Gardiner Mill Company	09-25-1914	74	169
11-22-1911	Asa Henderson, et ux	12-18-1911	70	40
09-20-1913	Asa Henderson, et ux	04-13-1914	73	479
10-30-1911	Gardiner Mill Company	11-03-1911	68	483
06-05-1914	Gardiner Mill Company	07-06-1914	74	11
02-06-1917	Reedsport Company	05-16-1917	77	118

Date	Grantor	Date of Recording	Book	Page
02-07-1917	W.P. Reed, et ux	03-16-1917	77	
02-07-1917	W.P. Reed, et ux	03-16-1917	77	117
09-07-1926	Umpqua Mills and Timber Company	10-28-1926	88	494
11-21-1911	Arthur Walker, et ux	12-05-1911	68	566
09-20-1913	Arthur Walker, et ux	01-12-1914	73	239
01-26-1912	J.D. Tharp, et ux	02-21-1912	70	269
11-04-1914	Southern Pacific Company	11-18-1914	74	300
09-20-1913	A. Walker, et ux	01-12-1914	73	239
03-25-1912	Gardiner Mill Company	04-08-1912	70	392
05-23-1912	P. Dolan, et ux	06-13-1912	70	609
05-21-1913	J.E. Smith, et ux	06-07-1913	72	377
08-19-1913	P. Dolan, et ux	09-10-1913	72	379
09-10-1912	Simpson Lumber Company	11-04-1912	71	331
07-11-1914	Simpson Lumber Company	10-22-1914	74	240
01-10-1912	R.C. McDonald, et vir	03-14-1912	70	322
07-11-1914	R.C. McDonald	08-17-1914	74	95
07-25-1912	A. Anderson, et ux	08-06-1912	71	121
07-13-1914	A. Anderson, et ux	08-17-1914	74	96
04-26-1917	W.P. Reed, et ux	09-15-1917	77	516

ALSO, those parcels of land described in an Order of the circut court of the State of Oregon for the county of Douglas, June 28, 1916, Willamette Pacific Railroad Company, Plaintiff vs. Henry Wade, et al, Defendants, described therein as follows:

" A strip of land One Hundred and Fifty (150) feet wide, lying equally seventy-five (75) feet on each side of the located center line of the Willamette Pacific Railroad Company's Railroad, heretofore duly adopted by the Board of Directors of the said plaintiff Railroad Company where the same is located over and across the lands of the defendants, and marked by stakes set in the ground at distances of fifty (50) feet and less; said strip of land being a portion of the Southwest quarter of the Southwest quarter of Section eleven and the Northwest quarter of the Northwest quarter of Section fourteen, Township Twenty-One South, Range Twelve West, Willamette Base and Meridian (S.W. 1/4 of S.W. 1/2 of Sec. 11 and NW1/4 of NW1/4 of Sec. 14 T. 21 S.R. 12 W. W.B. & M.) Douglas County Oregon; said located center line being particularly described as follows:

Commencing at a point where the said located center line intersects the West line of said Seciton Eleven (Sec. 11), said point being known as Engineer Survey Station "D" 2257 plus 42.0 a point on tapering curve to the right; said point being distant Three Hundred and ninety (390) feet, more or less, measured Northerly along said West line from the Southwest corner of said Section Eleven (Sec.11); running thence from said point of commencement, Southeasterly along said tapering curve to the right, said curve having radii of varying and increasing lengths, a distance of Two Hundred and Eighty-Four and eight-tenths (284.8) feet to a point known as Engineer Survey Station "D" 2260 plus 26.8, end of curve; thence Southeasterly along a line tangent to said last mentioned tapering curve a distance of Eight Hundred and eighty-nine and seven-tenths (889.7) feet to a point known as Engineer Survey Station "D" 2269 plus 16.5, the beginning of a tapering curve to the left; thence Southeasterly along said tapering curve to the left, said curve having radii of varying and decreasing lengths, a distance of Three Hundred and Thirty (330) feet to a point known as Engineer Survey Station "D" 2272 plus 46.5, the beginning of a Three degree (3° 00') curve to the left; thence Southeasterly along said Three degree (3° 00') curve to the left having a radius of OneThousand, Nine Hundred and nine and nine-tenths (1909.9) feet, a distance of Three Hundred and Twenty-three and five tenths (323.5) feet to a point known as Engineer Survey Station "D" 2275 plus 70 at the intersection of said located center line with the East line of said Northwest quarter of the Northwest quarter of said Section Fourteen (NW 1/4 of NW 1/4 of Sec. 14), said point being distant Three Hundred (300) feet, more or less, measured Northerly along said East line from the Southeast corner of said Northwest quarter of the Northwest quarter of said Section Fourteen (S.E. corner of NW 1/4 of N/W 1/4 of Sec. 14); the above described strip of land contains an area of Six and twenty-nine one-hundredths (6.29) acres, more or less.

Also a strip of land One Hundred and Fifty (150) feet wide, lying equally seventy-five (75) feet on each side of the located center line of said Willamette Pacific Railroad Company's Railroad, heretofore duly adopted by the Board of Directors of the said plaintiff Railroad Company where the same is located over and across the lands of the defendants and marked by stakes set in the ground at distances of Fifty (50) feet and less, said strip of land being a portion of the Southeast quarter of the Northwest quarter, the Southwest quarter of the Northeast quarter and the Northwest quarter of the Southeast quarter of said Section Fourteen (SE1/4 of NW1/4; SW1/4 of NE1/4 and NW1/4 of SE1/4 of Sec. 14) of said Township and Range, Douglas County, Oregon; said located center line being particularly described as follows:

Commencing at a point where the said located center line intersects the North line of said Southeast quarter of the Northwest quarter of said Section Fourteen (SE1/4 of NW1/4 of Sec. 14) said point being known as Engineer Survey Station "D" 2285 plus 70, a point on a tapering curve to the right, said point being distant Three hundred and sixty (360) feet, more or less, measured Westerly along said North line from the Northeast corner of said Southeast quarter of the Northwest quarter of said Section Fourteen (NE cor. of SE1/4 of NW1/4 of Sec. 14) running thence from said point of commencement, Southeasterly along said tapering curve to the right, said curve having radii of varying and decreasing lenghts, a distance of Eighty-Two and six-tenths (82.6) feet to a point known as Engineer Survey Station "D" 2286 plus 52.6, the beginning of a Five degree (5° 00') curve to the right, thence Southeasterly along said 5° 00' curve to the right, having a radius of One Thousand, one hundred and forty-six (1146.0) feet, a distance of Five hundred and seventy and seven-tenths (570.7) feet to a point known as Engineer Survey Station "D" 2292 plus 23.3, the beginning or tapering curve to the right, thence Southeasterly along said tapering curve to the right, said curve having radii of varying and

increasing lengths, a distance of One Hundred and twenty (120) feet, to a point known as Engineer Survey Station "D" 2293 plus 43.3, end of curve; thence Southeasterly along a line tangent to said last mentioned tapering curve a distance of One Hundred and ninety-one and two-tenths (191.2) feet to a point known as Engineer Survey Station "D" 2295 plus 34.5, the beginning of a tapering curve to the left, thence Southeasterly along said tapering curve to the left, said curve having radii of varying and decreasing lengths, a distance of Ninety (90) feet to a point known as Engineer Survey Station "D" 2296 plus 24.5, the beginning of a Two degree (2° 00') curve to the left, thence Southeasterly along said 2° 00' curve to the left having a radius of Two Thousand, eight hundred and sixty-four and eight-tenths (2864.8) feet, a distance of Two Hundred and sixty-seven and five-tenths (267.5) feet to a point known as Engineer Survey Station "D" 2298 plus 92.0, the beginning of a tapering curve to the left, thence South easterly along said tapering curve to the left, said curve having radii of varying and increasing lengths, a distance of Ninety (90) feet to a point known as Engineer Survey Station "D" 2299 plus 82.0, end of curve; thence Southeasterly along a line tangent to said last mentioned tapering curve, a distance of One hundred and fifty-five and five-tenths (155.5) feet to a point known as Engineer Survey Station "D" 2301 plus 37.5 the beginning of a tapering curve to the right; thence Southeasterly along said tapering curve to the right, said curve having radii of varying and decreasing lengths, a distance of Two hundred and seventy (270) feet to a point known as Engineer Survey Station "D" 2304 plus 07.5 the beginning of a five degree (5° 00') curve to the right, thence Southeasterly along said 5° 00' curve to the right, having a radius of One Thousand, one hundred and forty-six (1146.0) feet, a distance of Ninety-four and seven-tenths (94.7) feet to a point known as Engineer Survey Station "D" 2305 plus 02.2, the beginning of a tapering curve to the right, thence Southeasterly along the said tapering curve to the right, said curve having radii of varying

and increasing lengths, a distance of One Hundred and fifty-seven and eight-tenths (157.8) feet to a point known as Engineer Survey Station "D" 2306 plus 60 at the intersection of said located center line with the East line of the said Northwest quarter of Southeast quarter of said Section Fourteen (NW1/4 of SE1/4 of Sec. 14,) said point being distant One Thousand and secenty (1070) feet, more or less, measured Northerly along said East line from the Southeast corner of the said North-west quarter of Southeast quarter of said Section Fourteen (SE cor. of NW1/4 of SE1/4 of Sec. 14).

The strip of land just above described contains an area of Seven and two-tenths (7.2) acres, more or less.

Also a strip of land One Hundred and fifty (150) feet wide, lying equally seventy-five (75) feet on each side of the located center line of said Willamette Pacific Railroad Company's railroad, heretofore duly adopted by the Board of Directors of the said plaintiff Railroad Company where the same is located over and across the lands of the defendants and marked by stakes set in the ground at distances of Fifty (50) feet and less, said strip of land being a portion of the Southeast quarter of the Southeast quarter of said Section Fourteen and the Southwest quarter of Southwest quarter of Section Thirteen (SE1/4 of SE1/4 of Sec. 14 and SW1/4 of SW1/4 of Sec. 13) of said Township and Range, Douglas County, Oregon; said located center line being particularly described as follows:

Commencing at a point where the said located center line intersects the North line of said Southeast quarter of South-east quarter of said Section Fourteen (SE1/4 of SE1/4 Sec. 14) said point being known as Engineer Survey Station "D" 2321 plus 20, a point on a Five degree (5°00') curve to the right, said point being distant Nine Hundred and forty (940) feet, more or less, measured easterly along said North line from the Northwest corner of said Southeast quarter of the Southeast quarter of said Section Fourteen (N.W.

cor. of SE1/4 of SE1/4 of Sec. 14); running thence from said point of commencement Southeasterly along said 5° 00' curve to the right having a radius of One Thousand, One Hundred and forty-six (1146.0) feet, a distance of One Hundred and Seventy and eight-tenths (170.8) feet, to a point known as Engineer Survey Station "D" 2322 plus 90.8, the beginning of a tapering curve to the right, thence Southeasterly along said tapering curve to the right, said curve having radii of varying and increasing lengths, a distance of Two Hundred and seventy (270) feet to a point known as Engineer Survey Station "D" 2325 plus 60.8, end of curve; thence Southeasterly along a line tangent to said last mentioned tapering curve a distance of Two Hundred and forty-seven and nine-tenths (247.9) feet to a point known as Engineer Survey Station "D" 2328 plus 08.7, the beginning of a tapering curve to the left, thence Southeasterly along said tapering curve to the left, said curve having radii of varying and decreasing lengths, a distance of Two Hundred and ten (210) feet to a point known as Engineer Survey Station "D" 2330 plus 18.7, the beginning of a Two degree (2°00')curve to the left; thence Southeasterly along said 2° 00' curve to the left, having a radius of Two Thousand, Eight Hundred and Sixty-four and eight tenths (2864.8) feet, a distance of Three Hundred and thirty-two and five tenths (332.5) feet to a point known as Engineer Survey Station "D" 2333 plus 51.2, the beginning of a tapering curve to the left; thence Southeasterly along said tapering curve to the left, said tapering curve having radii of varying and increasing lengths; a distance of Eighty eight and eight tenths (88.8) feet to a point known as Engineer Survey Station "D" 2334 plus 40 at the intersection of said located center line with the South line of the said Southwest quarter of Southwest quarter of said Section Thirteen (SW1/4 of SW1/4 of Sec.13), said point being distant Two hundred and ten (210) feet more or less, measured Easterly from the Southwest corner of the said Southwest quarter of the Southwest quarter of said Section Thirteen (SW cor. of SW1/4 of SW1/4 of Sec. 13).

The strip of land just above described contains an area of Four and fifty-five one-hundredths (4.55) acres, more or less.

Also a strip of land one One Hundred and fifty (150) feet wide, lying equally seventy-five feet (75) feet on each side of the located center line of said Willamette Pacific Railroad Company's Railroad, heretofore duly adopted by the Board of Directors of the said plaintiff Railroad Company, where the same is located over and across the lands of the defendants and marked by stakes set in the ground at distances of Fifty (50) feet and less; said strip of land being a portion of Lots Five (5), Four (4) and Three (3) of Section Twenty-six (Sec. 26) of said Township and Range, Douglas County Oregon; said located center line being particularly described as follows:

Commencing at a point where the said located center line intersects the East line of Lot number Five (5) of said Section Twenty-six (26), said point being at or near a point known as Engineer Survey Station "D" 2425 plus 80, a point on a tangent, said point being distant Four Hundred (400) feet, more or less, measured Southerly along said East line from the Northeast corner of said Lot Five of said Section Twenty-Six (Lot 5 of Sec. 26,) running thence from said point of commencement Southwesterly along said tangent through Lots Five (5), Four (4) and Three (3), a distance of Two Thousand, Six Hundred and Seventy (2670) feet, more of less, to a point at or near a point known as Engineer Survey Station "D" 2452 plus 50, at the intersection of said located center line with the mean low water line of the Umpqua River."

ALSO, that parcel of land described in Transfer Certificate of Title, Certificate No. 338, filed in Volume 3, Folium 319, Registrar of Titles, Douglas County, Oregon.

ALSO, a line of railroad, along the original surveyed center line of main track of Willamette Pacific Railroad Company, crossing Fiddle Creek Arm at the mouth of Lake Tsiltcoos; Five Mile Arm of Lake Tah Keniteh and Bays and Coves of said Lakes,

pursuant to an Act of State Legislature of State of Oregon referenced by Lords Oregon Law of 1891, Paragraph 3938, and Oregon Code of 1930, Section 62-401, and Oregon Revised Statutes 273.751.

ALSO, a line of railroad, along the original surveyed center line of main track of Willamette Pacific Railroad Company, crossing the Smith River and the Umpqua River, pursuant to an Act of State Legislature of State of Oregon referenced by Lords Oregon Law of 1891, Paragraph 3938, and Oregon Code of 1930, Section 62-401, and Oregon Revised Statutes 273.751.

ALSO, a parcel of land described in Transfer Certificate of Title, Certificate No. 1445, dated November 19, 1913, from United States of America to Willamette Pacific Railroad Company described therein as follows:

"Beginning at a point which is North Eighty one degrees East Five hundred and twenty eight feet (N 81° E 528 ft) from the meander post between Sections Twenty six and thirty five, Township Twenty one South, Range Twelve West, Willamette Base & Meridian (Secs 26 and 25 T 21 S R 12 W W B & M) on the east end of Purdy Island, sometimes called Bolon's Island, running thence along the Southerly property line of the grantor, Henry Wade, South Fifty-One degrees East Two hundred and thirty feet (S 51° E 230 ft.) more or less, at one hundred fifty two (152) feet intersecting the located center line of the Willamette Pacific Railroad Company's railroad known as the "D" line as the same is located and marked on the ground by stakes set therein at intervals of Fifty (50) feet and less, at or near Engineer Survey Station "D" 2454 + 49 of said located center line, to a point which is seventy five (75) feet distant southeasterly

measured at right angles to said center line; thence Northeasterly at a uniform distance of seventy five (75) feet from said center line, a distance of Two Hundred twenty five (225) feet, more or less, to a point; thence North Sixty six degrees West Two hundred forty feet (N 66° W 240 Ft) more or less, at seventy eight (78) feet intersect the said center line at or near Engineer Survey Station "D" 2452 + 35 of said center line; thence South Thirty seven degrees West one hundred and sixty five feet (S 37° W 165 ft) to the place of beginning, containing an area of One and Five One hundredths (1.05) acres more or less, lying and being in sections twenty six and thirty five, Township Twenty one South, Range Twelve West, W.M. (Secs 26 and 35 T 21 S R 12 W.W.M) lying Westerly of a line drawn Seventy five (75) feet Easterly and at a uniform distance from the located "D" center line aforementioned as the same is located and marked by stakes set in the ground at intervals of fifty (50) feet more or less across the aforementioned tide lands."

EXCEPTING therefrom the land described in the following instruments (Deeds, etc.) as follows:

Date	Grantee	Date of Recording	Book	Page
08-03-1977	L.E. Meier, et al	10-13-1977	652	725
06-22-1979	Harry E. Maxwell	09-05-1979	#79-14163	
11-30-1918	Arthur Walker	07-19-1919	79	620
12-18-1959	Douglas County	02-03-1960	291	24

ALSO EXCEPTING those parcels of land situated in Lot 5, Section 1, Township 20 South, Range 12 West, W.M. described as follows:

Parcel A:

"Beginning at a point in the north line of the parcel of land described in the deed from J.A. Janelle and Mary B. Janelle to the Willamette Pacific Railroad Company recorded in Book of Deeds, Volume 73 page 21, Douglas County Records, that bears South 80° 31' West 4666.9 feet from the east one quarter corner of said Section 1 and also distant 50.0 feet easterly measured at right angles from the center line of the originally located main track of the Southern Pacific Company's Coos Bay Branch; thence East along the North line of the parcel of land described in said deed 55.86 feet to the westerly line of the parcel of land described in that certain indenture dated June 9, 1942, Southern Pacific Company to the County of Douglas; thence South 0° 39' West along said westerly line 165.01 feet to the southerly line of the parcel of land described in the above mentioned deed; thence West along said southerly line 49.65 feet to a point that is distant easterly 50.0 feet measured at right angles from the said center line of the originally located main track; thence North 1° 30' 30" West 165.06 feet to the point of beginning.

"Parcel B:

"Beginning at a point in the north line of the land described in deed dated October 4, 1913 from J.A. Janelle and Mary R. Janelle, his wife, to Willamette Pacific Railroad Company, recorded October 17, 1913 in Book of Deeds, Volume 73, page 21, Douglas County records, that is the northwest corner of the 0.15 of an acre parcel of land described in deed dated June 9, 1942 from Southern Pacific Company to the County of Douglas, and is distant 770 feet South and 4547 feet West from the east quarter-section corner of said Section 1; thence East along said north line of said land described in said deed dated October 4, 1913, a distance of 585 feet, more or less, to the northeast corner of said land in the east line of said Lot 4, Section 1; thence South along said east line, 165 feet to the southeast corner of the land described in said deed dated October 4,

1913; thence West along the south line of said land described in said deed dated October 4, 1913, a distance of 585 feet, more or less, to the southwest corner of the aforesaid 0.15 of an acre parcel of land described in said deed dated June 9, 1942; thence North 0° 39' East along the west line of said 0.15 of an acre parcel of land 165.0 feet to the point of beginning."

Parcel C:

"Beginning at the point of intersection of the westerly line of land (100 feet wide) described in deed dated April 6, 1912 from Sylvester J. Cox to Willamette Pacific Railroad Company, recorded April 29, 1912 in Book 70 of Deeds, page 463, Records of Douglas County, with the southerly line of land described in deed dated October 4, 1913 from J.A. Janelle, et ux, to Willamette Pacific Railroad Company, recorded October 17, 1913 in Book 73 of Deeds, page 21, Records of Douglas County, that is distant 50.0 feet westerly, measured at right angles, from the original located center line of Southern Pacific Company's main track (Coos Bay Branch), and also distant South 934 feet from the north line of said Lot 5; thence West along said southerly line, 110.00 feet to a point in the government meander line of Lake Siltcoos; thence along said meander line as follows: North 10° 00' 00" West, 24.33 feet and North 10° 00' 00" East, 143.27 feet to a point in the northerly line of land described in said deed dated October 4, 1913; thence leaving said meander line, East along last said northerly line, 85.00 feet to a point in said westerly line of land (100 feet wide) described in said deed dated April 6, 1912, distant 50.0 feet westerly, measured at right angles, from said original located center line; thence South 1° 30' 30" East, parallel with said original located center line, 165.12 feet to the point of beginning."

ALSO EXCEPTING that parcel of land described in deed dated December 31, 1913, to Asa Henderson, situated in the South half of the Northeast quarter of Section

11, Township 22 South, Range 12 West, W.M., described in said deed as follows:

"Beginning at a point in the said South half of the Northeast quarter (S.1/2 of N.E.1/4) of said Section Eleven (11) that is distant Seventy-five (75) feet measured Northwesterly at a right angle from a point on the located center line of the Willamette Pacific Railroad Company's railroad, known as Engineer Survey Station "N" 2649+70.5, said point being also known as Engineer Survey Station "A" 2649+70.5; thence in a Southwesterly direction parallel to and at a uniform distance of Seventy-five (75) feet Northwesterly from the located "A" center line of the said Willamette Pacific Railroad Company's railroad to a point on the South line of the said South half of Northeast quarter (S.1/2 of N.E.1/4) of said Section Eleven (11); thence Westerly along and on said South line to a point that is distant Seventy-five (75) feet, measured Northwesterly on a radial line from the abandoned located "N" center line of the said Willamette Pacific Railroad Company's railroad; thence in a Northeasterly direction parallel to and at a uniform distance of Seventy-five (75) feet Northwesterly from said abandoned located "N" center line to the point of beginning."

ALSO EXCEPTING those parcels of land described in deed dated February 24, 1914, to Gardiner Mill Company, described therein as follows:

"FIRST: Beginning at a point in the Northwest quarter of the Southeast quarter (N.W.1/4 of S.E.1/4) of Section Eleven (11), Township Twenty-two (22) South, Range Twelve (12) West, Willamette Meridian that is distant Seventy-five (75) feet measured Westerly at a right angle from a point on the located center line of the Willamette Pacific Railroad Company's railroad known as Engineer Survey Station "A" 2666+45.5, said

point being also known as Engineer Survey Station "N" 2667+03.1; thence in a Northerly direction parallel to and at a uniform distance of Seventy-five (75) feet Westerly from the located "A" center line of said railroad to a point on the North line of said Northwest quarter of Southeast quarter (N.W.1/4 of S.E.1/4) of said Section Eleven (11); thence Westerly along and on said North line to a point that is distant from the abandoned located "N" center line of said railroad; thence in a Southerly direction parallel to and at a uniform distance of Seventy-five (75) feet Westerly from said abandoned located "N" center line to the point of beginning.

SECOND: Beginning at a point in the West half of the Northeast quarter (W.1/2 of N.E.1/4) of Section Fourteen (14), Township Twenty-two (22) South, Range Twelve (12) West, Willamette Meridian that is distant Seventy-five (75) feet measured Easterly at a right angle from a point on the located center line of the Willamette Pacific Railroad Company's railroad known as Engineer Survey Station "N" 2697+65.6, said last mentioned point being also known as Engineer Survey Station "B" 2698+09.3; thence in a Southerly direction parallel to and at a uniform distance of Seventy-five (75) feet Easterly from the located "B" center line of said railroad to a point on

STATE OF OREGON) ss
COUNTY OF DOUGLAS)
I, DOYLE SHAVER JR., COUNTY CLERK AND RECORDER OF CONVEYANCES, DO HEREBY CERTIFY THAT THIS INSTRUMENT WAS RECORDED
98 APR 23 PM 3:07
DOYLE SHAVER JR
DOUGLAS COUNTY CLERK
IN THE OFFICIAL RECORDS OF DOUGLAS COUNTY
BY _____ DEPUTY
FEE 18.00

98-09298

2

REDACTED

3

REDACTED

CHAPMAN

BEFORE THE
SURFACE TRANSPORTATION BOARD

Central Oregon & Pacific Railroad, Inc. – Abandonment and Discontinuation of Service – in Coos, Douglas, and Lane Counties, Oregon (Coos Bay Rail Line)	)	Docket No AB-515 (Sub-No 2)

VERIFIED STATEMENT OF PATRICIA L. CHAPMAN

My name is Patricia L. Chapman and I am a member of the law firm of Gleaves Swearingen Potter & Scott LLP. I previously filed a Verified Statement in this proceeding on July 14, 2008 ("Prior Statement"), explaining the process undertaken by me and other members of this firm to determine whether fee title was conveyed to the Central Oregon & Pacific Railroad, Inc. ("CORP") for the parcels comprising the portion of CORP's "Coos Bay Subdivision" that is the subject of the abandonment portion of this abandonment and discontinuation application ("Abandonment Segment").

The purpose of this Verified Statement is to present one correction to the summary of the fee title review that was set forth in the "CORP – Coos Bay Abandonment Segment Title Documents Summary" attached to my Prior Statement as Attachment 1 The within update concerns the parcel identified as Parcel No. 11 on Val. Sec V-2, Map 6 ("Parcel 11"), appearing on the first page of Attachment 1 of my Prior Statement, with respect to which no fee conclusion had been drawn by us at the time of the Prior Statement We have reviewed the document by which title to Parcel 11 was conveyed to CORP and have determined that fee title to Parcel 11 was, in fact, conveyed to CORP's predecessor in interest with respect to that parcel

[CONTINUED ON NEXT PAGE]

We have provided the above update with respect to Parcel 11 to RMI Midwest.

VERIFICATION

I, Patricia L. Chapman, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Patricia L. Chapman

Executed on September 9 2008

PETTIGREW

BEFORE THE
SURFACE TRANSPORTATION BOARD

Central Oregon & Pacific Railroad, Inc – Abandonment and Discontinuance of Service – in Coos, Douglas and Lane Counties, Oregon (Coos Bay Rail Line)	)	Docket No. AB-515 (Sub-No. 2)

VERIFIED STATEMENT OF ALAN PETTIGREW

My name is Alan Pettigrew. I am Vice President-Purchasing for RailAmerica, Inc. ("RailAmerica"). I have 32 years of experience working in the railroad industry, including 20 years with Southern Pacific Transportation Company, more than five years with the Union Pacific Railroad Company, and more than six years with RailAmerica. RailAmerica is the parent company of Applicant Central Oregon & Pacific Railroad, Inc. ("CORP"). My business address is 7411 Fullerton Street, Suite 300, Jacksonville, Florida 32256. As Vice President Purchasing, I am responsible for the purchase and sale of railroad track, ties, and other track materials on a daily basis, on behalf of 41 short line and regional railroads that operate approximately 7,800 route miles in 25 States and three Canadian provinces.

The purpose of this Verified Statement is to respond to comments and testimony submitted by the Oregon International Port of Coos Bay (the "Port"), the State of Oregon ("Oregon"), the Coos-Siskiyou Shippers, and others, concerning the value of the Abandonment Segment of CORP's Coos Bay Line, including the Net Liquidation Value ("NLV") of its track assets; the potential removal of bridges and effect of any such removal on the NLV; and scrap metal prices. The line of railroad that CORP seeks authority to abandon runs between CORP milepost 763.13 near Cordes, OR, and CORP milepost 669.0 near Vaughn Oregon (referred to below as the "Abandonment Segment" or the "Line").

Responding to claims that CORP was seeking to "overprice" and "inflate" the value of the Line in order to generate an inappropriate "windfall" (*see, e g* Oregon comments at 5), CORP solicited competitive bids for purchase of the track assets of the Abandonment Segment. Two leading railroad track removal and salvage companies, Unitrac Railroad Materials, Inc. ("Unitrac") and L.B. Foster Company ("Foster"), submitted offers to purchase those assets. I hereby adopt and incorporate by reference the information and opinions set forth in Attachments 1 and 2. (Track asset purchase efforts from Foster and Unitrac).

Both Unitrac and Foster developed and provided actual firm and binding offers to purchase the track assets of the Abandonment Segment from CORP. *See* Attachments 1-2. L.B. Foster's "all-in" purchase offer for the track assets (which includes the costs associated with removal, sale or disposal of those assets) provided by LB Foster, is $15,120,000. Unitrac's offer for purchase of all track assets (similarly including removal and salvage costs) except bridges is $16,367,124. These actual purchase offers made by Unitrac and Foster constitute the real-world "net liquidation value" of the track assets of the Abandonment Segment. The remainder of this Statement explains my conclusions that (i) the purchase offers – and the Foster and Unitrac NLV estimates CORP submitted with the Application – establish the reasonable, market-based NLV of the track assets of the line; (ii) the Siuslaw and Umpqua River bridges will not necessarily be removed and if they are removed, the removal bids obtained by CORP show the market-based net cost of removals and (iii) if recent changes in metals index prices were used to revise the NLV, the result would be a modest change in the overall NLV

I. THE ACTUAL PURCHASE OFFERS SUBMITTED BY CORP ARE THE BEST EVIDENCE OF THE NLV OF THE ABANDONMENT SEGMENT'S TRACK ASSETS.

Contrary to the unsupported allegations of opponents of the Application, CORP's NLV is reasonable and based upon real world market conditions. In order to develop an accurate,

objective estimate of the NLV of the track assets for the Abandonment Application, I worked with RailAmerica West Chief Line Engineer Marc Bader to obtain purchase bids from two experienced, reputable companies engaged in removal, salvage, and disposal of railroad track assets: L.B. Foster Company ("Foster") and Unitrac Railroad Materials, Inc. ("Unitrac") Foster prepared an estimate of the net value of the track assets for the Abandonment Segment (*i.e.*, the salvage value of the assets less the removal costs and other associated costs), which CORP submitted with its Application. *See* V.S. Bader at 1-4, Attach. 2. Based on a careful physical inspection of the line, Unitrac submitted an actual offer to purchase the track assets of the Abandonment Segment *See id* at 1-4, Attach. 3.

In response to CORP's opening submission, several parties claimed that CORP's evidence overstated the NLV of the track assets *See, e.g*, Port Comments at 14-17; Oregon Comments at 5; Hrg. Tr at 66-67 (testimony of Oregon Rep. A. Roblan); Hrg. Tr. at 162 (Port President Kronsteiner testimony that CORP valuation seeks inappropriate "windfall"); Hrg. Tr at 250-91 (Port of Umpqua manager allegation that CORP is using an "inflated valuation" of the rail infrastructure). Partly in order to respond to such claims, I solicited actual bids to purchase the track assets from both LB Foster and Unitrac. In response, Foster and Unitrac each developed purchase offers (covering the removal, salvage, sale, and disposal of track assets and associated expenses) for the Abandonment Segment track assets, based upon their independent field inspections of the Segment and review of track asset inventories and other information provided by CORP. *See* Attachments 1-2. Some of the materials prices used in developing these offers are updated from those Unitrac and/or Foster used in developing the NLVs submitted in support of CORP's Application pending abandonment proceeding. This reflects changes in the relevant commodities prices between late May 2008 (when Foster and Unitrac provided their

initial estimates for purposes of the abandonment proceedings) and late August 2008, when Foster and Unitrac submitted their final purchase offers. Both offers include a substantial profit margin for the offeror.

In my opinion, these actual, firm purchase offers, developed by two experienced companies engaged in the business of salvaging rail lines, provide the real, market-based NLV of the track assets of the Abandonment Segment. Based on my careful review and comparison of the two purchase offers submitted by L.B. Foster and Unitrac, my 32 years in the rail industry, and my ongoing daily experience in buying and selling rail materials and salvage markets, I find Foster's and Unitrac's purchase offers reasonable, grounded in and consistent with actual market data and conditions, and reflective of the actual NLV of the track assets. The fact that two purchase offers, independently developed by competing bidders using significantly different approaches, are in the same general dollar range further confirms their reasonability and grounding in real market values.

A. Unitrac Purchase Offer

Based upon its "thorough physical inspection of the entire line, current market prices and costs and Unitrac's extensive experience" in this type of project, Unitrac has offered to purchase the track assets of the Abandonment Segment for $16,367,124. *See* Unitrac "Bid for Coos Bay Subdivision Track Assets and Evaluation of Port of Coos Bay's NLV" (Aug. 22, 2008), Attachment 1 at 1. Detailed line-item information underlying the Unitrac purchase offer is included in a chart accompanying that offer. *See* Attachment 1.

Comments submitted by the Port contend that CORP's NLV evidence does not adequately account for costs of removal of bridges over the Siuslaw and Umpqua Rivers. It is correct that the Unitrac's original bid, and its current offer, assume that the purchaser would not be required to remove any bridges on the Line. I believe that is a reasonable assumption. In my

experience, rail bridges generally are not removed when a line is abandoned, especially when there is potential use of the roadbed as a bicycle or hiking trail and removal of bridges would eliminate that use.

This particular Line, which runs through rugged scenic country, including forested land and Oregon's famous dunes area, might be used as a continuous bicycle or hiking trail and removal of bridges would preclude such a use. The Line might be used as a hiking and biking trail extending from Coos Bay through and among State and National Forests, along the edge of the Oregon Dunes National Recreation Area and inland. In fact, CORP has received an expression of interest in purchasing the Line for potential trail use from the Oregon Trust for Public Land. *See* Attachment 5. Without the bridges over the Siuslaw and Umpqua Rivers, such a trail would not be possible.

The Port claims that the U.S Coast Guard would *require* the two bridges be removed if the line segment is no longer used for rail transportation. However, the Coast Guard has advised CORP that, if rail right-of-way is converted to trail use, the Coast Guard will *not* seek removal of bridges used for such a trail, if the trail owner accepts responsibility for maintaining the bridge. *See* Attachment 4. And, the Coast Guard's District Office in Seattle, Washington has told CORP that there are several options for modifying bridges over navigable waters, short of full removal, that may be considerably less costly than removing those bridge spans.

If we determined that bridge removal was required, CORP would either obtain separate bids for bridge removal directly, or allow Unitrac to do the same, incorporate the net cost into its overall offer, and furnish a revised offer To determine the market-based NLV of removing the two bridges, CORP obtained a separate bid for that work from Staton Companies, a demolition company located in Eugene, OR. Staton's bid offers to remove the spans over the navigable

portions of the Umpqua and Siuslaw River bridges for $2,065,790. *See* Attachment 3. If CORP accepted Unitrac's purchase offer, it could also accept Staton's bridge removal bid. Staton would then remove the bridges, and Unitrac would remove and salvage the other track assets. This would result in an effective reduction of the overall value of the Unitrac offer by $2,065,790, to $14,301,334.

B. L.B. Foster Company Purchase Offer

Based on its inspection of the Line and the track asset inventory provided by CORP, L.B. Foster has submitted a firm purchase offer for the track assets of the Abandonment Segment (including removal of the bridges over the Siuslaw and Umpqua Rivers) for $15,120,000. *See* Attachment 2.[1] L.B. Foster's purchase offer expressly states that it is based upon Foster's "complete and thorough site inspection of the entire Coos Bay Subdivision." As Foster's general manager summarizes in the purchase offer letter,

> This is an "all-in" purchase offer for the track assets of the line, which reflects our market-based calculation of the "Net Liquidation Value" of the line, including all relevant costs (costs of removal, transportation, disposal, etc.) and track asset values.

Attachment 2. The supporting information submitted by Foster makes clear that its purchase offer includes removal of the Siuslaw and Umpqua river bridges. *See* Attachment 2. Foster determined that the net cost of removing those two bridges and selling or disposing of the salvageable materials would be $2,000,000. *See* Attachment 2. Foster accordingly reduced its offer by that amount *See Id.* In my view, the bridge component of Foster's offer should be given great weight in determining the net liquidation value of the bridges, because it is an actual

[1] The supporting data submitted by LB Foster appear to indicate a purchase offer price for the Abandonment Segment that is [ ] higher than the price set forth in Mr. Steininger's purchase offer letter. I will conservatively use the lower dollar number ($15,120,000) from the offer letter for purposes of this testimony.

market-based firm offer by an experienced contractor who stands ready to do the work for the price it offered.

Foster determined the gross value of the Line's track assets, set forth in the supporting chart submitted with its purchase offer, to be $24,421 484 *See* Attachment 2. The prices and costs that L.B. Foster used to develop its purchase offer are based on current market conditions and its own recent experience in actual removal, sale, and disposition of track assets. *See* Attachment 2. For example, Foster used metals prices for which it actually sold the same classes of salvaged rail in July and August of 2008. Attachment 2 Using actual current prices is important, because market prices for re-roll, and scrap rail and OTM increased significantly from April to August, 2008, and available indices understate actual market prices. *See e g* Attachment 1 at 2-4 Similarly, based on its actual current market experience, Foster determined that the total liquidation costs for the Segment, including a substantial profit margin, were $9,291,484. Foster's resulting purchase offer of $15,120,000 is a market-based NLV of the Abandonment Segment track assets.

To calculate a single NLV for the Abandonment Segment track assets, I averaged the purchase offers from Foster and Unitrac. The Foster offer for those assets is for $15,120,000 and the Unitrac offer is for $16,367,124, resulting in an average offer of $15,743,562.[2] This average of two real world offers establishes the actual NLV of the track assets of the Abandonment Segment.

[2] If removal of the bridges over navigable waters of the Siuslaw and Umpqua Rivers were required, the effective NLV represented by the Unitrac offer would be reduced by the amount of the Staton Company bid for removing those bridge spans ($2,065,790) because either CORP or Unitrac could retain Staton to perform the bridge removal work This would result in a net sale price of $14,301,334. The average of that price and the LB Foster purchase offer (which includes removal of the bridges) of $15,120,000 is $14,710,667.

I emphasize that the contractors' (Unitrac and Foster) bids are firm, real-world commercial *offers* to purchase the assets. *See* Attachments 1-2 CORP could accept either one of the offers, and the selected offeror would be contractually obligated to salvage the Abandonment Segment at the offered price. Therefore, unlike a non-binding NLV estimate that might be developed by a consultant, both Unitrac's and LB Foster's bids are disciplined by market requirements. In addition, the Unitrac and LB Foster representatives who developed the purchase offers have a combined 55 years of actual commercial experience in these areas. *See* Attachments 1-2.

There would be no basis for any claim or suggestion that the purchase offers of Foster and Unitrac are not arms-length offers or are unduly influenced by CORP or RailAmerica's existing or potential future business relationships or transactions with either vendor. Foster and Unitrac each issued actual binding purchase offers in a competitive bidding process. If CORP were to accept either offer, the selected vendor would be obliged to purchase the assets and perform the work for the price offered. The reason CORP sought actual offers rather than estimates was to ensure that the numbers it used in this proceeding were independent, objective, and market-based measures of the fair market value of the assets of the Line.

RailAmerica does not have any short or long term commitments to either company for either sale of company assets or purchase of materials supplied by either company. Every year our purchase requirements are competitively bid to all industry suppliers and contracts are awarded on the basis of lowest total cost to the company. As the cost and availability of track related materials is based on supply and demand it is not in our best interest to enter into long term relationships with any company As historical data produced in this case shows, Foster and Unitrac represent a minor portion of RailAmerica's overall purchases and business volumes. *See*

Pettigrew workpapers. In the case of asset sales, we solicit competitive bids and award contracts on the basis of highest overall value to the company

I believe that the best way to determine the real market value of a set of assets is to identify the price that a knowledgeable, willing, and able buyer offers, and a similarly knowledgeable seller is willing to accept. LB Foster and Unitrac are such buyers, and they have submitted actual firm offers. As the person most responsible for buying and selling rail materials on behalf of CORP and RailAmerica, I would likely accept an offer for the Abandonment Segment track assets at an amount in the range of the Foster and Unitrac offers.

II. METALS PRICES

A. There Has Been Significant Change in Index Prices for Scrap Metal Over the Last Six Months.

One of my job responsibilities is to monitor market prices for steel rail and OTM materials. Based on my continuing review, I know that "scrap" metals prices have increased significantly in 2008, particularly during the second and third quarters. For example, the steel price that I use as a benchmark for the floor on rail scrap prices when I evaluate bids for the purchase or sale of scrap rail – the American Metals Market index for Number 1 Busheling Scrap steel delivered in Chicago[3] – increased steadily from [ ] per gross ton in early April, 2008 to [ ] per ton in May, to $ 780 per ton in early June, to [ ] per ton in mid-July to [ ]/ton in mid-August, before a dip to [ ] in the last few days. *See* Attachment 6 at 4-5; Pettigrew Reply workpapers

[3] I generally consider the AMM-Chicago No. 1 Busheling scrap metal price to be the absolute rock bottom price floor for actual market prices for scrap rail metals, and would not consider any lower index price when evaluating an actual offer to purchase scrap rail in the current market.

B. The AMM Price Indices Substantially Understate Market Prices for Scrap Steel Rail and OTM.

I understand that the STB has sometimes relied upon American Metals Market ("AMM") price indices as evidence of the market value of scrap and reroll quality steel rail assets. Particularly in the current market, AMM indices understate actual market values of such assets. In my experience, the AMM-Chicago index prices are consistently lower, and sometimes much lower, than the actual prices at which "scrap" steel rail materials sell in the marketplace. Therefore, while those indices provide convenient rough benchmarks for general price trends, and the "Number 1 busheling" index generally provides a reasonable indicator of the floor beneath those prices, the indices' absolute values are not reliable guides to actual marketable prices. In the last year, AMM-Chicago prices have consistently understated actual market prices for relevant rail scrap materials, often by substantial margins. Mr. Wilhoit of Unitrac confirms my observation and experience, stating that the AMM indices "significantly understate actual market prices and therefore do not truly reflect what reroll, scrap rail, and OTM sell for today." Attachment 1 at 2.

During the last year and presently, the most relevant AMM price index for scrap steel rail and OTM has been the "No. 1 busheling" Chicago index. Other scrap and re-roll rail indices published by AMM simply do not reflect current market prices for this high-demand steel. As Mr. Wilhoit put it,

> In today's market, railroad materials are not measured against scrap market values, but rather constitute a commodity of their own With a very limited supply of available railway material, the demands of the market have increased their values to historical levels. When rail and OTM is sold as scrap, it is now considered as #1 bundles or a #1 busheling substitute There is a tremendous shortage of raw material such as these because of the demand in the global market in which we now participate, and the AMM rail scrap prices significantly understate actual market prices.

Attachment 1 at 3. Based on my own experience in these markets, and the input of LB Foster's and Unitrac's experienced experts, I conclude that the AMM Chicago index prices significantly understate current market prices for re-roll and scrap rail and OTM.

Notwithstanding my strong view that AMM indices significantly understate the actual Chicago market prices for scrap rail and OTM and reroll rail, and that actual purchase offers provide the best and most accurate evidence of the actual NLV of the track assets of the Abandonment Segment, I applied AMM index prices to develop several alternative NLV estimates. I prepared one NLV estimate based on the applicable AMM Chicago metal index price (*i.e* the number 1 busheling price) on the date CORP filed its Abandonment Application (July 14, 2008); one using the same AMM index price on September 10, 2008, the most recent date available at the time of this Statement; a third using the average of daily AMM index values during the period; and a fourth using the average of AMM values at the two endpoints. *See* Attachments 6-9. As I explain below, I believe the average of each daily AMM index price (set forth in Attachment 6) provides the most reasonable and accurate representation of the NLV during the course of this proceeding.

1. The Most Appropriate Index Price Measure is the Average of Daily Prices from the Filing of the Application Until the Completion of This Final Round of Evidence.

I have been involved in several abandonment proceedings before the Board, including the recent SJVR case, in which I sponsored NLV testimony. *See* STB Dkt. No. AB-398 (Sub-No. 7X), *San Jaoquin Valley Railroad Company – Abandonment Exemption – In Tulare County, CA* (served Aug 26, 2008). Based on my 32 years of experience in the industry (including the last 22 years, in which I have been intimately involved in purchase, salvage, and sale of rail assets), I agree with the Board's common sense finding in *SJVR* that the best evidence of the NLV of a

line is an actual purchase offer – what a willing buyer would pay and a willing seller would accept. The purchase offers to CORP from Foster and from Unitrac for the track assets of the Abandonment Segment are exactly such market-based real world offers. I repeat my conclusion that those offers provide the best evidence of the NLV of the track assets of the Line

It is true, as some commenters have suggested, that there has been significant price movement in the scrap metals markets in recent months. As my testimony and supporting workpapers show, the general trend in AMM index prices has been consistently upward in 2008 and during the pendency of this proceeding. I acknowledge, however, that in early September, scrap index prices dipped significantly. I cannot predict with accuracy the future course of scrap steel prices, let alone AMM index estimates, but I believe that market conditions and pressures suggest that scrap steel will not remain at the recent depressed levels. In the short term, the level of index prices will depend on a variety of factors, prominently including the overall course and strength of the U.S. economy and the global economy.

If the STB were to decide to use the less-accurate AMM index price estimates rather than actual purchase offers for purposes of calculating the scrap metal component of the NLV in this case, I believe the best and most accurate choice would be to use the average of the daily AMM-Chicago index values during the time this proceeding has been pending. *See* Attachment 6 (charts showing average of daily AMM index prices for number 1 busheling, and NLV estimate developed using that daily average). The index-based prices used in that chart best represent the time-weighted average of index values over the course of this proceeding, from filing on July 14 to filing of the final evidence [4] That average appropriately reflects the fact that, for the majority

[4] As Attachment 6 illustrates, the average of the daily values of the AMM index during the period would be [ ] per gross ton, or [ ] per net ton. *See* Attachment 6 at 5. This Reply evidence is filed on September 12. At the time I finalized this Statement, the most recent

of the period from July 14 to date, the relevant AMM index price was either [ ] or [ ] per gross ton. If the Board were to use an average based on only the index values at the two endpoints of the period (July 14 and September 10), it would be distorting the prevailing level of the index prices over the period, by effectively overweighting a significantly lower price ([ ] /GT) that was in place for only the last four days of the period. Similarly, if the Board were to use only the price at one endpoint or the other to estimate the NLV, it would be either overstating the index-based NLV somewhat (if it used the [ ]/GT July 14 value) or understating it substantially (if it used the [ ]/GT September 10 value). The average of all daily values (reflected in the alternative NLV presented in Attachment 6), in contrast, more accurately reflects the overall prevailing index value during the relevant time period.

In my view, it definitely would not be appropriate to use index prices from any period prior to the filing of this proceeding, because those indices do not attempt to estimate market prices at the time of the abandonment (or, in the case of an OFA, at the time of the sale). In the real market, no seller bases the price it is willing to accept on a price index (particularly and index that the seller knows consistently understates actual market prices) at some arbitrary point in the past Any valuation based on historical metals index prices months before CORP filed its Application certainly would not reflect current fair market value or a market-based NLV.

For purposes of this proceeding, perhaps the most important point regarding scrap metals price index levels is that they affect only approximately [ ] percent of the overall NLV of the track assets of the Line, because [ ] percent of the asset value for rail and OTM is attributable to assets other than scrap metal For purposes of illustration, I will use the components of the LB Foster purchase offer. As Attachment 2 illustrates, Foster classified [%] of the rail [ ]

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available AMM index prices were as of September 10, 2008. *See* Attachment 6; Pettigrew workpapers.

as relay rail. Because of the higher value of relay rail, [ ] of Foster's overall valuation of the rail assets [ ] is attributable to rail classified as relay rail. Foster classified [ ] percent of OTM [ ] as relay quality, and [ ] percent of OTM value [ ] is attributable to relay quality material. Together relay quality rail and OTM account for approximately [ ] of the total value [ ] for all rail and OTM as it relates to Foster's purchase offer. Accordingly, any change in the AMM scrap index levels – or in real world market prices of scrap metal – would affect, at the very most, only [ ] of the overall value of the purchase offer (NLV).

2. Development of Alternative NLV Estimates Using Index Prices.

To develop the quantities and classifications of the track assets for these alternative estimates, I used the track asset inventory of the Abandonment Segment prepared by Marc Bader for purposes of obtaining NLV estimates and purchase offers in this proceeding *See* CORP Abandonment Application, V.S. Bader I then applied the AMM-Chicago index price for No 1 busheling on the relevant date to the quantities of scrap rail and OTM. *See* Attachments 6-9.

Because of the very tight market for relay rail and materials, prices for those materials do not follow scrap metal prices. Over the last 2-3 years, relay materials prices have increased steadily, largely because of the high demand for, and low supply of, those materials. For example, since 2005 RailAmerica's average costs for relay rail for all of its 41 railroads has increased by [ ] percent. Conversely, RailAmerica's new rail cost has increased by only [ ] percent over the same period. One reason for the historically low supply of relay rail is that Class I railroads (which previously sold relay quality rail) now generally retain their relay rail for their own use. Given current market conditions, I anticipate that market prices for relay rail and OTM likely will not decline in the foreseeable future

There is no published index for relay rail prices. For purposes of the alternative NLV estimates, I used the average of the relay prices used by LB Foster and Unitrac to develop their purchase offers Because both Foster and Unitrac based their offers on actual sales prices they have obtained in the current market (market prices for relay materials have not declined in the month since the two contractors extended their purchase offers), the average of those offer prices provide an excellent measure of the actual market prices for relay materials. *See* Attachments 6-9. I also used the average of the Foster and Unitrac offer prices for other NLV components in my alternative NLV calculations, because those averages (based upon actual prices obtained in the real world by two competing vendors) represent the best available objective estimates of current market prices.[5]

The resulting alternative NLVs for the Abandonment Segment range from $17,022,821 to $21,753,377. *See* Attachments 6-9; Table I, *infra* The alternative NLVs do not include a profit margin, as it is possible that CORP (or RailAmerica) would choose to complete the removal and salvage work itself rather than selling the track assets to a third party. To present an "apples-to-apples" comparison with the Foster and Unitrac purchase offers, a profit margin (for which contractors use a variety of labels, including, for example, "administrative fee" or "marketing cost") should be deducted from the NLVs. The average of the profit margins in the two actual purchase offers (from Foster and Unitrac) actual purchase offer is [ ]. *See* Attachments 1-2. As summarized in the following Table I, deducting that average profit margin from the NLV estimates described above results in an NLV range of $13,744,343 to

[5] As I discuss below, I did not use the average of the two offers for bridge removal costs, because the Unitrac offer does not include bridge removal. Instead, I conservatively used the net removal cost reflected in the higher of the two independent bridge removal bids CORP obtained from experienced contractors L.B. Foster and Staton Companies.

$18,474,899, depending on the scrap metals index value used to estimate scrap salvage values.

See Attachments 6-9 [6]

Table I :Summary of Alternative NLV Estimates Using AMM-Chicago Metals Index Prices
(*See* Attachments 6-9)

Time Period	*NLV Estimate*	*NLV Estimate Assuming Bridge Removal*	*NLV Estimate Less Profit Margin*	*NLV Estimate Less Profit Margin Assuming Bridge Removal*
July 14, 2008	$21,753,377	$19,141,336	$18,474,899	$15,862,858
September 10, 2008	$19,088,611	$17,022,821	$15,810,133	$13,744,343
Daily Average (7/14/2008-9/10/2008)	$21,276,953	$19,211,163	$17,998,475	$15,932,685
Endpoint Average (7/14/2008 and 9/10/2008)	$20,420, 994	$18,355,204	$17,142,516	$15,076,726
		Averages:	17,356,506	15,154,153

Table II
(*See* Attachments 1-2)[7]

L.B. Foster Actual Purchase Offer	$17,120,000
Unitrac Actual Purchase Offer	$16,367,124

[6] I emphasize that it would be unreasonable, unfair, and not reflective of overall market values to use the recent low price from September 10, or the average of prices on July 14 and September 10 (See Attachments 8-9), because the September price is much lower than the general prevailing price during the pendency of the proceeding.

[7] These numbers reflect the purchase offers of Foster and Unitrac assuming removal of the Siuslaw and Umpqua River bridges is not required. As set forth above, the purchase offers if bridge removal is required are $15,120,000 from Foster and $ 14,301,334, which yields an average of $ 14,710, 667.

The average of the four alternative NLV estimates, including a market-based profit, is $17,356,506 *See* Table I; Attachments 6-9. As Table II illustrates, the average of the Foster and Unitrac actual purchase offers ($17,120,000 and $16,367,124 respectively) for the same Abandonment Segment is $16,743,562, or approximately 3.5% lower than the average of the NLV estimates using AMM index prices.

Thus, the alternative NLV estimates generally confirm the reasonableness of the NLV reflected in the LB Factor and Unitrac offers, and show (confirming my analysis of the purchase offers in the previous section of this statement) that volatility of index prices for scrap metals does not have a significant effect on the properly calculated NLV of the Line. Despite the fact that two of the four alternative NLV estimates are artificially depressed due to the very recent decline in AMM scrap index prices, the average alternative NLV estimates provide further support for the use of the Foster and Unitrac actual purchase offers as the best objective evidence of the NLV of the track assets. Because the change in scrap metals index price represents a relatively small component of the overall value of the track assets, application of such alternative index price assumptions does not dramatically affect the NLV of the track assets of the Abandonment Segment.

III. NET COSTS OF POTENTIAL BRIDGE REMOVAL.

The Port claims that two large bridges (over the Siuslaw and Umpqua Rivers) would have to be removed if the Segment is abandoned. *See* Port comments at 14-15. As I previously stated, I do not think the bridges would need to be removed if the Line were abandoned and salvaged. The Port's assumption that the two bridges would necessarily be removed is apparently based upon an ambiguous statement from a single Coast Guard employee. *See* Port

comments at 15.[8] Based on my experience in other abandonments and other contexts, and the importance of such bridges to potential future trail use, I continue to believe it is at best uncertain whether the bridges would be removed following abandonment

Because of the uncertainty about whether the Coast Guard might require two of the bridges be removed, I asked L.B. Foster to include in its purchase offer the cost of removing those bridges (over the Siuslaw River at MP 716.4 near Cushman, Oregon and the bridge over the Umpqua River at MP 739.63 near Reedsport, Oregon). Foster's "all-in" purchase offer includes the costs and material salvage values for removal of those two bridges, and therefore reflects a real-world firm offer to purchase the track assets if the job included removal of the two bridges. Because the costs of bridge removal and other related costs exceed the salvage value of the bridge materials, the net effect is to reduce LB Foster's purchase offer by $2,000,000. *See* Attachment 2 Because LB Foster's net bridge removal cost determination is supported by an actual purchase offer for the track assets – including removal of the bridges –I find it very credible.

To further test the bridge removal cost estimate submitted by the Port, CORP also solicited an independent bid for removal of the two bridges. RL Staton Companies, a Eugene, Oregon demolition company with extensive experience in dismantling and removing bridges over water and highways, conducted physical inspections of the Siuslaw and Umpqua River Bridges and developed proposals for removing both bridges. *See* Attachment 3. Staton has presented an offer to remove the portions of both bridges over the navigable waterways, using appropriate methods and safeguards, for a total price of $2,065,790 *See* Attachment 3.

[8] The Port's comments cite to an exhibit in its Feeder Line Application, which I understand the Port chose not to file in this proceeding. *See* Port comments at 15.

Based on my discussions with RailAmerica's Director of Structures and Bridges (who is very familiar with the two bridges in question and inspected them in mid-August 2008) Bill Riehl, and our review of current photographs and engineering drawings of the bridges, I understand that large portions of the Siuslaw River Bridge are not over the river at all, but rather cross adjacent land and a road. *See, e g.*, CORP Abandonment Application, Exhibit 4 at 33 (picture of portion of Siuslaw River Bridge section over land). That land is certainly not "navigable water," and there would not seem to be any basis for the Coast Guard to require removal of that portion of the bridge. The Port seems to acknowledge this when it indicates that it assumes the "swing span" of the two bridges (i.e. the portion that crosses the navigable waterway) would be removed. *See* Port Comments at 14.

If CORP (or a purchaser of the Abandonment segment) were required to remove only the portion of the bridges that cross the navigable waters of the rivers, it would not incur the costs for removing other portions of the bridge. In our discussions in Staton's bid letter, Staton made clear that two components of its bid apply only to segments of the bridges that do not cross the rivers themselves.[9] Excluding those two components (for demolition and removal of wood trestles and bridges over roads) reduces the Staton Companies' bid by [ ], to [ ]. This provides strong further confirmation that the $2,000,000 cost for removal of the Siuslaw and Umpqua River Bridges that LB Foster used in its purchase offer (and which Foster

[9] The two components that consider only positions of the structures that are over land (and thus do not obstruct the navigable waterway) are "Wood Trestle Over Wet Land" and "Bridge Over Road/Highways." CORP's parent company RailAmerica specifically asked Staton Companies to break out the portions of the structures costs that are not over the navigable waterways in a fashion that would allow determination of Staton's bid for removal of only those portions over the waterway. As the Staton bid letter indicates, other components of the proposal are partially attributable to removal of the land portion of the bridge.

developed independently of Staton) is reasonable and in the appropriate range.[10] Based upon two actual, binding offers from experienced contractors who stand ready to perform the work, I conclude that the NLV of removing the bridges is approximately $2-2.1 Million

[10] Using Staton's bridge removal bid, I also prepared additional sets of NLV estimates based on AMM metals price indices. *See* Attachments 6-9. Those estimates use AMM Chicago metals prices for July 11, September 10, the daily average, and the average of the two endpoints, and also deducts the cost of removing the "over-the-waterway" spans of the Siuslaw and Umpqua River Bridges Deducting that $2,065,790 from the alternative NLV estimates (using AMM-index prices for scrap metal) yields NLVs for the Abandonment Segment of $ 13,744,343 to $15,932, 685. *See* Table I.

I, Alan Pettigrew, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Alan Pettigrew

Executed on September 11, 2008

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-----Original Message-----
From: Alesia.J.Steinberger@uscg.mil [mailto:Alesia.J.Steinberger@uscg.mil]
Sent: Thursday, August 21, 2008 3:57 PM
To: Echikson, Thomas G.
Cc: ELgaaly, Hala; Hall, Frank; Den_Boer, Kim
Subject: Bridge Alteration Orders

Thank you for your inquiry Please see the attached document which responds to your questions. If you have further questions, please contact us.

Alesia Steinberger
Chief, Alterations & Drawbridge Operations
CG-54111
Office of Bridge Administration
U. S. Coast Guard
202-372-1515

-----Original Message-----
From: techikson@Sidley.com [mailto:techikson@Sidley.com]
Sent: Thursday, August 21, 2008 9:21 AM
To: ELgaaly, Hala; Sugarman, Shelly; Steinberger, Alesia; Patnaik, Jacob, Jaufmann, Josef; Den_Boer, Kim
Subject: Bridge Alteration Orders

Ladies and Gentlemen:

I have several questions regarding bridge alteration orders and would greatly appreciate hearing back from any of you who might be able to answer them This regards a railroad bridge that will be "abandoned" for rail transportation. In such circumstances:

1. Am I correct that that the the "abandonment" of a bridge for land (rail) transportation would not automatically result in a Coast Guard order to remove the bridge as an obstruction to navigation? Instead, would the procedures set forth in 33 C.F.R. Part 116 apply, including evaluation of the costs and navigational benefits of removal, as well as environmental and historic impacts?

2. Am I correct that if a determination is made that the abandoned bridge is an obstruction to navigation, the Coast Guard could order some alteration of the bridge short of complete removal?

3. Am I correct that the Coast Guard would at most require removal of that portion of the bridge within "navigable waters"? In other words, those portions of the bridge which span over wetlands or land are beyond

the Coast Guard's jurisdiction?

4. If the bridge is converted to trail use, would this trail use qualify as land transportation?

5. If the bridge is required to be removed, how long would the Coast Guard allow navigable waters to be obstructed (by removal equipment) during removal? In other words, would the obstruction from removal equipment need to be taken down each day, or could it remain in place for, say, a week while the removal effort were continuing?

6. And finally, does the Coast Guard require that coffer dams be used during the removal or alteration of the bridge or would turbidity curtains suffice?

Thank you in advance for any advice you can provide

Tom Echikson

Thomas G. Echikson
Sidley Austin LLP
1501 K Street, NW
Washington, DC 20005

phone. 202-736-8161
fax: 202-736-8711
techikson@sidley.com

I have several questions regarding bridge alteration orders and would greatly appreciate hearing back from any of you who might be able to answer them. This regards a railroad bridge that will be "abandoned" for rail transportation. In such circumstances:

1. Am I correct that that the "abandonment" of a bridge for land (rail) transportation would not automatically result in a Coast Guard order to remove the bridge as an obstruction to navigation? Instead, would the procedures set forth in 33 C.F.R. Part 116 apply, including evaluation of the costs and navigational benefits of removal, as well as environmental and historic impacts?

Should the Coast Guard find that a bridge over navigable waters is abandoned and no longer used for land transportation, the Coast Guard would contact the bridge owner and notify them that the bridge is considered in violation of federal law and to constitute an unreasonable obstruction to navigation. The bridge owner would be offered the following options:

a) Return the bridge to an active transportation function. The bridge owner should contact the Coast Guard District Bridge office to negotiate a reasonable period to return the bridge to service. After this time is set, the Coast Guard will periodically monitor the bridge to ensure compliance.

b) Should the bridge owner desire to retain portions of the bridge in the waterway after removal of the main navigation span, they should consult with the U. S. Army Corps of Engineers. Failure to obtain Corps' approval to leave parts of the structure in the waterway after it has lost its character as a bridge will subject the bridge owner to remove the bridge in its entirety down to or below the natural bottom of the waterway or such other elevation as deemed appropriate by the Coast Guard District Commander in consultation with the Corps of Engineers.

c) Completely remove the bridge from the waterway at no expense to the Federal Government. The Coast Guard's involvement in the removal process will include early review of the proposed removal plan that will allow the Coast Guard to notify effected mariners and to ensure that the reasonable needs of navigation are met during the removal operations.

The Coast Guard only investigates bridges under 33 CFR 116, pursuant to alteration under the Truman-Hobbs Act that are actively used structures. An abandoned bridge does not constitute an active structure.

2. Am I correct that if a determination is made that the abandoned bridge is an obstruction to navigation, the Coast Guard could order some alteration of the bridge short of complete removal?

This option the outlined in option b) above.

3. Am I correct that the Coast Guard would at most require removal of that portion of the bridge within "navigable waters"? In other words, those portions of the bridge which span over wetlands or land are beyond the Coast Guard's jurisdiction?

Complete removal from the waterway, bank-to-bank. If the owner wishes to retain a portion of the bridge, see option b) above.

4. If the bridge is converted to trail use, would this trail use qualify as land transportation?

Yes, however the owner of the trail now has the responsibility of maintaining and operating the bridge. If the bridge has a movable navigation span, the trail owner is required to operate the movable span in accordance with 33 CFR 117.

5. If the bridge is required to be removed, how long would the Coast Guard allow navigable waters to be obstructed (by removal equipment) during removal? In other words, would the obstruction from removal equipment need to be taken down each day, or could it remain in place for, say, a week while the removal effort were continuing?

The bridge owner would need to coordinate the removal operations with the Coast Guard District Bridge Office and the local Coast Guard Captain of the Port to allow safe removal of the bridge while minimizing the effects on navigation.

6. And finally, does the Coast Guard require that coffer dams be used during the removal or alteration of the bridge or would turbidity curtains suffice?

This would be decided on a case-by-case basis and would be coordinated with the Coast Guard District Bridge Office and the local Coast Guard Captain of the Port.

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THE TRUST for PUBLIC LAND

Oregon Field Office
[illegible]
Portland OR
[illegible]
www.tpl.org

Todd N Cecil
RailAmerica, Inc.
Vice President – Real Estate
1355 Central Parkway South
Suite 700
San Antonio, TX 78232

August 26, 2008

Re. Coos Bay Rail Line Abandonment Proceedings

Dear Todd:

This letter serves to confirm and summarize our meeting of August 25, 2008, regarding RailAmerica's pending application before the Surface Transportation Board to abandon its Coos Bay line from Cordes to Danebo.

As we stated in our meeting, should the abandonment proceed and should there be local support for such an undertaking, The Trust for Public Land would be very interested in entering negotiations with RailAmerica to purchase the rail corridor before it is abandoned, broken up, and its pieces sold. Our intention would be to facilitate the rail banking of the corridor, thereby preserving the community's ability to make decisions about future uses of the corridor, whether for trail, rail or other purposes.

We appreciate the opportunity to speak with you on this matter and to express our interest in working with you and with local communities to preserve the corridor

Sincerely,

Owen Wozniak
Field Representative

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